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Pennies From Heaven

Weather Forecasting Goes Private

TENTH ANNUAL FINANCIAL ISSUE

- Jim Blanchard
- Harry Browne
- John Kneiling
- Howard Ruff
- James Sinclair
- Jerome Smith

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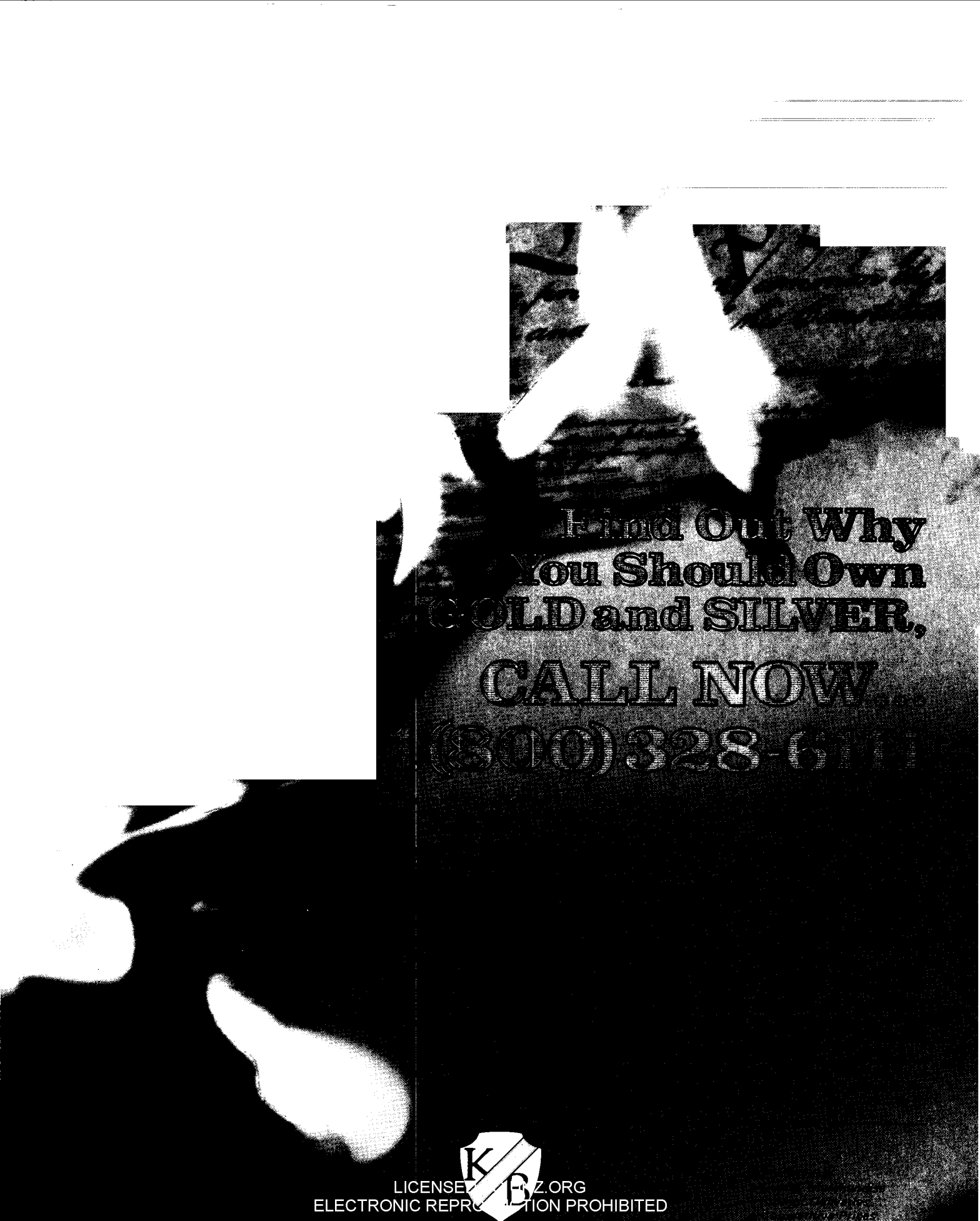

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FIFTEENTH ANNIVERSARY YEAR

JUNE 1983/VOL. 15, NO. 2

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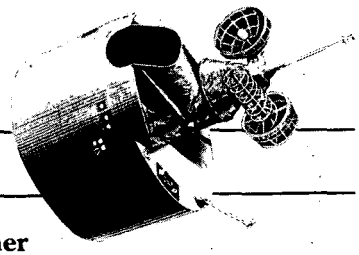
Free Minds and Free Markets



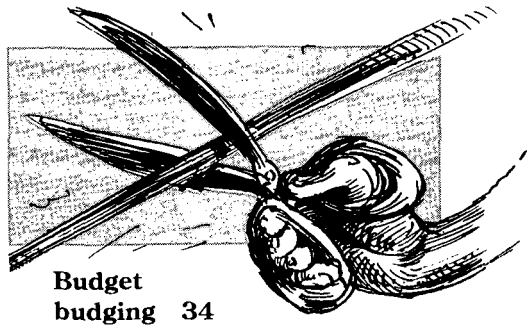
Whither forecasting? 23

FEATURES

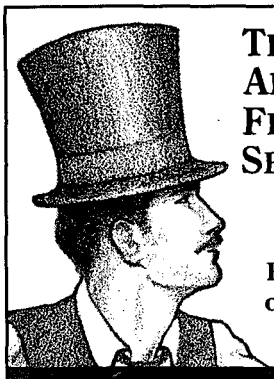
FAIR WEATHER
Private firms stand poised to bring advanced technology to weather forecasting—and relieve taxpayers of a subsidy to businesses. An investigative journalist checks out the storm clouds.
By Patrick Cox **23**

NEXT STOP, SOLVENCY
Do New York's subways really need subsidies? Could they be sold to private operators? The answers can be found in a little-noticed study.
By Peter Samuel **31**

BALANCING ACT
Now, in the heat of controversy, a cool look at the proposed balanced-budget amendment.
By Joe Cobb **34**

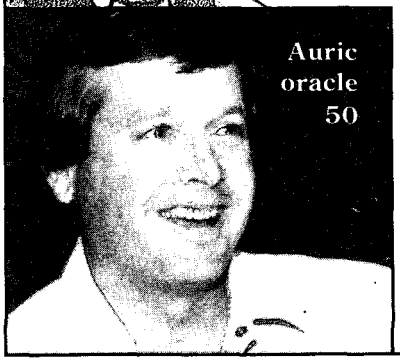


Budget budging 34



TENTH ANNUAL FINANCIAL SECTION

Prophets of profits 39



Auric oracle 50

MAKE HAY WITH HIGH-TECH
Profit from the high-technology boom—while it lasts.
By Jerome Smith **39**

RIDE HIGH WITH INFLATION
Prepare for the coming tide of double-digit inflation.
By Howard Ruff **41**

BEWARE THESE GOLD & SILVER MYTHS
Watch out for some common fallacies about the precious metals.
By Harry Browne **43**

MINE THE METALS MARKET
Exploit the profits that lie in indium, rhenium, germanium, and other strategic metals.
By James E. Sinclair and Robert Parker **46**

HOW TO INVEST A WINDFALL
A strategy for getting the most from a single lump sum.
By John Kneiling **48**

INTERVIEW WITH JAMES U. BLANCHARD III
He led and won the fight to legalize gold. Now he's fighting to reform currency laws. Jim Blanchard speaks of matters financial and political.
By Joe Cobb **50**

DEPARTMENTS

EDITORIAL/Countering the MADmen **6**
MONEY/Gold Theories Devalued **56**
HEALTH & WELFARE/Put This in Your Tailpipe! **57**
SPOTLIGHT/Gunning for Rights **58**

NOTES **4**
LETTERS **8**
BRICKBATS **12**
TRENDS **14**
ARTS & LETTERS **60**

Cover illustration by Brett Wagner

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NOTEs

This month's cover story, on privatization of weather service, was *not* prompted by the Reagan administration's recent announcement of its plan to sell off the weather satellites. We began work on this story back in June 1982, inspired by a phone call several months earlier. It was from a private weather service whose president had heard about the Reason Foundation as a fount of knowledge on privatization and wanted us to know about his company. We published our first report on private weather services in Trends back in April 1977. But that phone call started me thinking about weather forecasting as part of what futurist John Naisbitt calls the information industry.

To get a handle on this emerging business, we signed up economic journalist Patrick Cox and sent him across the country, interviewing large and small weather services, Comsat Corp., Weather Service officials, and several economists. In editing the story we also talked with meteorologists at NASA and United Airlines and with our contacts in the private space-launch business. Even before this issue appeared, *USA Today* devoted a whole page to the Reagan proposals vis-à-vis weather satellites, including a short piece by me drawing on Patrick's article.

This issue is REASON's 10th annual Financial Issue. As we usually do, we've asked some of the country's leading investment advisors to give you their assessment of where the economy's heading—and what you can do to protect yourself. We sometimes waver on whether to have special issues. So if you especially like—or dislike—this one, I wish you'd let me know.

Our March cover story on competing private fire services has attracted some attention. WCKY radio in Cincinnati did an hour-long interview with author Gaines Smith on March 15. And the journal *Current Municipal Problems* is reprinting the article and will include it in its annual bound volume. Reprints of the article are also being used in a class in microeconomics at New Hampshire College. Our April cover story by Gerry King on the home schooling movement is being reprinted by the California Home Education Clearinghouse. The Clearinghouse pointed out that the article appeared at a propitious time, since the state's new school superintendent, Bill Honig, is currently researching the home-schooling situation in California.

The Reason Foundation continues its program of interdisciplinary conferences. In March, 17 scholars—economists, sociologists, political scientists, legal scholars, and philosophers—assembled in Los Angeles for two days of intensive discussion of "The Welfare State and Individual Responsibility." Organized by Senior Fellow Tibor Machan and supported by the Liberty Fund, the conference was part of our ongoing exploration of the idea and values of a free society.

California subscribers will be getting this issue just a few days before REASON's gala 15th Anniversary Banquet at the Beverly Hilton. At press time, it was too early to tell whether there would be any tickets left by the time you're reading this. If you'd like to attend this $125-a-plate benefit, your best bet is to call our office first: (805) 963-5993. With Ed Clark, John Hospers, Arthur Laffer, Robert LeFevre, William Niskanen, Congressman Ron Paul, Robert Ringer, and Walter Williams all on the program—plus Master of Ceremonies John McCarty and all of REASON's editors and staff on hand—this promises to be *the* event of the year for advocates of freedom.

Several months ago we reported that a Reason Foundation supporter, Jay C. Wood, was willing to donate REASON gift subscriptions to college libraries that were willing to accept them. He'd been frustrated by rebuffs from several libraries—including that of his alma mater! One brief mention here brought in over 20 requests, including one from an economics professor who noted that he'd been bringing in his personal copy of REASON for his students to share—and that if and when he got it back, it was usually missing a few pages. A bit overwhelmed by the response, Mr. Wood has nevertheless made good on his offer—but has now asked for help from other subscribers. If you would like to donate library subscriptions, we have a few more requests to fill and would love to have your contribution (at the special rate of $10 each).

—R. P.

MEXICO'S DEBT CRISIS

...America's Buying Opportunity

Triple-Play Investment

The financial crisis south of the border has created a unique investment opportunity in semi-numismatic Mexican silver dollar sized coins. At this *critical juncture* in time, there are some triple-play investment opportunities which combine the benefits of 1) the devalued peso; 2) the temporary price correction in silver; and 3) the numismatic rarity of selected Mexican silver dollars.

These four coins are the *best bargains* in Mexican silver:

1 The Old Mexican Silver Dollar

Excellent investment potential: 1) Coined over 35 years ago, the oldest coin of the four; 2) high silver content; 3) well struck, beautiful "Aztec" design; 4) most were melted down in 1979-80; 5) extremely scarce in mint state brilliant uncirculated condition; 6) historic & numismatic value; 7) currently underpriced due to silver correction: only $18.75 per coin in rolls of 20.

2 The Mexican Grande

For somewhat less money per coin, you can have most of the advantages of the "Old Mex" dollar (described above) in the *Grande:* 1) Last minted almost 30 years ago; 2) most coins melted down in 1979-80, with 95% of the survivors in *circulated* condition; 3) high silver content; 4) only $350 per roll of 20 brilliant uncirculated coins, or $1.25 (per coin) less than the "Old Mex" for many of the same attributes.

3 The Mexican 100-Peso Silver Dollar

During the recent financial crisis, the Mexican nationalized banks have dehoarded their 100-Peso coins to U.S. collectors and investors, in order to get much-needed U.S. dollars. Bank de-hoarding has temporarily driven the Mexican 100-Peso to a bargain basement price of $12.75 per coin in bags of 1000: the *best bargain* in world silver dollar size coins.

4 The 1968 Mexican Olympic Silver Dollar

In 1968, Mexico was host of the Summer Olympic Games, and this was the *only coin* minted in Mexico to commemorate that event. Unfortunately, the vast majority of these beautiful and historic coins were melted down in 1979-80.

The Mexican 25-Peso Olympic silver dollar is not only beautiful and of great historic rarity, but it is also one of our *lowest priced* Mexican silver dollars, at only $12 per coin in rolls of 20 brilliant uncirculated coins. **Highly recommended** in multiple rolls.

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Robert Poole, Jr.

Countering the MADmen

President Reagan has at long last called for development of systems to defend against nuclear attack. Far more than a proposal for yet another new weapons system, Reagan's March 23 speech was a call for repudiation of the major strategic policy of the past two decades—Mutual Assured Destruction. (MAD's basic premise is that the only defense against nuclear attack ought to be the threat to annihilate the Soviet Union in retaliation. To maintain this balance of terror, MAD's advocates adamantly oppose any sort of antiballistic missile [ABM] system.) It is that change in strategy that accounts for the near-hysteria on the part of MAD supporters since Reagan's speech.

The MADmen's first argument is that defensive systems are not technologically possible. These critiques have a familiar ring. Distinguished mathematician Simon Newcomb in 1901 published a detailed explanation of why "the construction of an aerial vehicle which could carry even a single man. . .requires the discovery of some new metal or some new force." Lacking either one, the Wright brothers flew two years later. In early 1945 FDR's naval aide, Admiral William Leahy, pronounced the Manhattan Project "the biggest fool thing we've ever done. The atomic bomb will never go off, and I speak as an expert on explosions." Then there was physicist Vannevar Bush of MIT, who in 1945 told a Senate committee looking into the possibility of ICBMs: "I say, technically, I don't think anybody in the world knows how to do such things, and I feel confident it will not be done for a very long period of time." The ICBM was a reality little more than a decade later.

We are at a similar stage with antiballistic-missile technology. Many people, recalling the ABM debates of the '60s, have the impression that the infeasibility of "hitting a bullet with a bullet" was established at that time. In fact, the first successful intercept of an ICBM warhead took place *in 1962* over the Pacific Ocean. The real problem then was how to deal with thousands of warheads (plus decoys) all at once. Two decades of tremendous progress in computer technology have solved that problem. Other key technologies—space transportation and precision guidance systems—are exemplified by the space shuttle's routine flights and the highly accurate space probes to Jupiter and Saturn.

It is quite true that lasers and particle beams are not yet perfected as weapons. But a highly effective, several-layer ABM system can be built with *existing* technology. The High Frontier project, for example, would utilize essentially off-the-shelf heat-seeking missiles based in space to intercept ICBMs in the early stages of flight. And it would supplement that shield with a shrapnel-type point defense installed around Minuteman silos.

Those MADmen who are scientists are not speaking as scientists when they claim that ABM systems won't work. They are expressing their political views, as long-time advocates of arms-control via MAD (or, in some cases, of various versions of disarmament). For every anti-ABM Kosta Tsipis or Jerome Wiesner, you can find a Simon Ramo or an Edward Teller who, with solid technical credentials, maintains that ABMs *are* feasible.

Ironically, when confronted with an available technology for nuclear defense, the MADmen's comeback is that such systems should not be built because doing so would be dangerous or destabilizing. Were the United States to build a High Frontier defense, they say, the Soviets would, in effect, be disarmed. Hence, they'd be tempted to launch a preemptive attack! Amazingly, this argument is made by the same people who continually pooh-pooh any claim that the Soviets are ahead in nuclear arms—it doesn't matter, they say, because the side with fewer weapons could still deliver an unacceptably destructive retaliatory blow. The same Poseidon subs that Tsipis cites as invulnerable when arguing that MX is unnecessary would still be there to retaliate—and the Soviets know it.

When this silly ploy is countered, the MADmen play their trump card. "The critical failure of all these defensive systems is that they must be perfect," says Tsipis. But that is asking the impossible. No weapons system has ever been, or is ever likely to be, 100 percent effective. Isn't a system that stops 90 or 95 percent of Soviet warheads, saving 95 out of 100 million people, better than nothing? No, say the MADmen, creating highly unrealistic scenarios of all 8,500 Soviet warheads raining down on us at once—neglecting the fact that 4,000 of these are on submarines, two-thirds of which are in port at any time; that a large fraction of the warheads would be held in reserve; that a rational Soviet attack would focus on military targets, not cities. The biggest threat to most people would be short-term fallout, and that could be countered by civil-defense precautions. No ABM system would make a nuclear attack a picnic. But by drastically reducing the extent of destruction, it could greatly increase the odds of survival.

While the MADmen's desperate arguments ring hollow, the case for nuclear defense has not been won. The president's proposal simply sets a long-term goal, premised on eventual success in turning lasers or particle beams into weapons. What we need *now* is to utilize existing technology to begin implementing the shift to what Herman Kahn calls Mutual Assured Survival. Where would the $15 to $25 billion for High Frontier come from in an already bloated defense budget? The short-term answer involves a trade-off. Instead of "solving" the problem of Minuteman vulnerability by spending $20 billion putting MX's into still-vulnerable silos, why not launch a High Frontier crash program instead? For the same money, that could provide *both* a point defense of the Minuteman fields *and* 450 satellites armed with interceptor missiles.

The space system could later be upgraded with "Star Wars weapons," when they become available. The money for *those* should come from the tremendous savings to be realized by ending our $100-billion-a-year subsidies of the defense of Europe and Japan. By choosing to spend so much defending others, we have been choosing not to defend ourselves, given the limited resources available. Sooner or later we are going to have to rethink that choice. Now that MAD is on the way out and real defense is in prospect, it's high time we chose to defend *ourselves.*

Robert Poole, Jr.

America's Tradition of Economic Freedom is Gradually Ending

But who is to blame? And what can be done?

Every time a legislature meets ...

and almost everytime a bureaucrat sits down at a desk, new laws are passed and new regulations issued that hamper and distort the economy, interfere with consumer demand, and severely restrict the freedom of business owners and executives. This *politicization* of the economy seems to continue regardless of the politicians or party in power.

Where does the political pressure come from? Who is pushing to see that more and more new laws and regulations are enacted?

Believe it or not, a primary culprit is *business*. Many businessmen really prefer *not* to operate in a free market. At the same time they are paying lip service to free enterprise, they are demanding tariffs, subsidies, licensing, or some other form of political protection from the rigors of competition.

Of course, they may argue that they, or their lobbyists, are working merely for "one small intervention in the economy." But this only reveals that they either don't care or don't realize that the net result of these "small interventions" makes business a greater threat to the survival of our economic system than any of its enemies. Thousands of special interventions add up to a vastly overregulated and distorted economy. Indeed, some predict that if present trends are not reversed, the U.S. will not take free enterprise into the next century.

Can anything be done to turn America's course back toward freedom and prosperity?

We believe the answer is *yes*.

A New Strategy

Clearly what is needed is a change, and a new and different strategy for restoring a free market. That strategy is realized in the Council for a Competitive Economy.

What makes the Council different can be summed up in one word: *principle*. The Council's only goal is economic freedom. We advocate not only productivity and growth, but the justice of voluntary trade, private property and individual rights.

Unlike other business groups, we oppose not some but *all* forms of government intervention in the marketplace: regulation, subsidies, tariffs, corporate taxes, and those myriad special privileges designed to help some businesses at the expense of competitors and customers.

Three years of remarkable achievements have proven overwhelmingly that this clear, consistent approach has political and intellectual results far beyond mere numbers.

The Program

To achieve its goals, the Council:

- ***Represents you*** before Congress and the regulatory agencies, meeting with policy makers, and professionally promoting the *best* solution: economic freedom.
- ***Builds*** coalitions on specific issues and within industries so that narrow economic interests can be combined to work for the best interests of society as a whole: toward de-politicization of the economy.
- ***Sponsors*** Manchester Forum, regular Capitol Hill luncheons bringing together Washington lobbyists, congressional staffs and other specialists to hear noted experts develop strategies for deregulation.

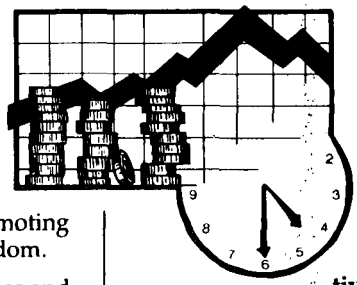
The time is now

"What the American business community lacks," warns George Stigler, 1982 Nobel Prize-winning economist, "is the will to eliminate most business regulation."

Attempts by business to gain protection or privilege have destroyed the ability of the market to solve our economic problems. Even worse, they are destroying the credibility of the market for future generations!

Where will the future policymakers turn if they believe "the free-enterprise market system" has been tried and failed? *Can we afford to let this happen?* Before it's too late, before the market economy is completely overwhelmed, those who understand the problem must decide to take a stand *for* the free market. And they must turn that decision into action by becoming members of the Council for a Competitive Economy.

Today's new entreprenuers, as well as future generations, must have the *freedom to prosper*. If you believe economic freedom is worth saving, take your best step in its defense. Join the Council — today. Together we can make a difference. Together, we can restore a healthy, productive and competitive economy to America.



The Council for a Competitive Economy has brought a dynamic new element into the struggle to make this country what it can and should be. Join with us — today.

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Letters

Industrialism . . . the Environment's Friend

I found Ron Arnold's article, "Eco-Terrorism!" (Mar.) extremely interesting. . . . Yet I find his minimizing the influence of the political left surprising. I certainly agree that many environmentalists are not from the left; but there is also little question but what many environmental philosophies and perspectives have come from leftists who very early saw the opportunity to disrupt our system. The leftist orientation was perfectly obvious, for instance, in the *Environmental Handbook* that was published in 1970, and several of the highest-visibility environmentalists are leftists.

It is the left which has cast industry as the heavy in the environmental play. The result is that decades of anti-industrial reporting have led many Americans to conclude that industry is responsible for most environmental problems. What *is* perfectly true is that industry is responsible for most environmental problems *which are reported.* The other side of industry's impacts is virtually never reported.

Meanwhile, I am grateful to the industrial system for what it has done for my personal environment. Every day I enjoy the view of a forest across the lake on which I live, a forest that didn't exist 100 years ago. The forest is filled with wildlife, also recently acquired, and some wildlife, such as deer, is now more abundant than when the Europeans landed. The trees that were once stripped from the land for fuel for home heating and cooking and for the manufacture of glass and iron have grown back, partly because we developed both our coal resources and a transportation system that allowed us to get them to points of need. The expansion of woods has been further helped because we found out how to produce ever more food per acre of land, and we have been able to distribute it economically—so that much once-cleared land is no longer needed for agricultural purposes. And I thank our industrial system for the modest wealth and for a long life so I can enjoy the world longer.

For contrast, even the most cursory look at the "developing" nations and the stupendously accelerated destruction of their forests and wildlife in recent years shows that the greatest threat to the environment is *failure* to industrialize. It follows that to the extent that our environmental laws and regulations retard our creation of wealth or make our industrial system less efficient, those laws and regulations may ultimately harm the environment they purportedly protect. . . .

James R. Dunn
Dunn Geoscience Corp.
Latham, NY

College Students!

Would you like to do research on privatization, user fees, or on one of a dozen other topics? The Reason Foundation can help. We maintain a list of public policy research topics we'd like to see researched. And we can give you pointers on how to get started—likely data sources and background readings. Don't just meet your school's course requirements; make a real contribution to advancing knowledge of a free society.

To discuss possible topics contact Eric Martí, The Reason Foundation, 1018 Garden Street, Santa Barbara, CA 93101, (805) 963-5993.

Property vs. People?

I read the article "Eco-Terrorism" with interest and pleasure. However, I must object to Ron Arnold's terminology. *Terrorism* means the use of violence against *people* (and other living things as well) for the purpose of intimidation and control. See recent events in Poland, for example, or current events in almost any Latin American nation, where government by massacre, torture, and extermination seems to be the rule. *Sabotage*, on the other hand, means violence against *machinery* or other forms of nonliving property. The distinction is important and clear; it is unfair to deliberately attempt to confuse the two. Myself, I am absolutely opposed to terrorism, whether by government or by "unlicensed" individuals.

Edward Abbey
Oracle, AZ

Edward Abbey is the author of The Monkey Wrench Gang.—*Eds.*

Mr. Arnold replies: It has been said that whoever defines the terms rules the resulting universe of discourse. Neither dictionary nor reason supports Mr. Abbey's inventive try to exempt sabotage from terrorism.

Webster's Third New International Dictionary defines *terrorism*: "1. the systematic use of terror as a means of coercion. 2. an atmosphere of threat or violence." Terror itself is "intense fright or apprehension: stark fear." Eco-sabotage is correctly and precisely termed terrorism.

By reason, too, we must reject Mr. Abbey's suggestion that force against property is not force against an individual. Property rights in America are civil rights, by both statute law and Supreme Court ruling. Mr. Abbey lauds in his novels violation of fundamental civil rights.

Pedantry isn't necessary to expose the intellectual thuggery of advocating violence "only against property." Soon after my "Eco-Terrorism" article was published, the group charged with blasting the Dunsmuir power substation in British Columbia was captured. Its members are charged with setting blasts in Toronto that seriously injured seven people. Apparently, Mr. Abbey's sabotage quickly slipped into people-terrorism.

Library Research

In your Trends item "Rent-A-Book Makes a Comeback" (Feb.), you state that "one of the public library's major activities" is that of bringing popular books to the public. That this is true concerns me. In addition to popular books (romances, science fiction, mysteries, etc.) they also loan records, cassettes, movies, paintings, and items that provide entertainment to a select group of the public. I believe that many libraries have become, in large part, taxpayer-supported entertainment centers for a portion of the public who should pay directly for such entertainment.

I suggest that this "excellent job" being done by the taxpayer-supported libraries is not an appropriate job for

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government. Further, I am surprised at the tone of the last paragraph of that item; it implies that you condone such entertainment subsidies by the state. Public libraries may perform valid functions, but providing entertainment is not one of them....

Don Y. Northam
Hyattsville, MD

Mr. Poole replies: We did not mean to suggest that providing library services is an appropriate function of government, only that lending libraries should not be seen as a complete substitute. Economist Lawrence J. White, in a study for the Twentieth Century Fund, determined that only 30 percent of the adult population makes use of public libraries and that one-quarter of that group accounts for three-quarters of adult use. Moreover, public library users are predominantly middle- and upper-middle-income and white-collar people. White's research lends strong support to the idea that libraries are not a "public good" but are, rather, an ordinary economic good that could be provided in the marketplace, paid for by the users.

Intelligent Question?

In "When the Smoke Clears" (Mar.) Michael Dunham cites this Biblical quote: "Why should my liberty be restricted by another man's conscience?" (I Corinthians 10:29). It is inappropriate and could backfire on anyone using it to argue for individualist ideas.

The quote comes from a section subtitled (in the Jerusalem Bible) "No compromise with idolatry." Paul was actually putting this quote, in the form of a challenge, into the mouth of some hypothetical questioner of his (Paul's) teachings. Paul then explains why one should in fact let one's acts be determined by the conscience of, and in behalf of the welfare of, others.

I seriously doubt that you will find that any quotes taken *in* context from the Bible will support individualist views.

Lawrence Barnes
Long Beach, CA

Ominous Injustice

Tibor Machan's review (Feb.) of *The Ominous Parallels* is unfair to Leonard Peikoff and a disservice to your readers. Machan's analysis of the book is muddled, imprecise, and patronizing, while the book itself is exactly the opposite: lucid, logical, and eloquent.

The most extraordinary aspect of this ambitious book is Peikoff's ability to make abstract philosophical ideas—and the practical consequences of those ideas—intelligible to lay readers. In the first half, he traces the central ideas in metaphysics, epistemology, and ethics from Plato to Kant and Hegel and shows how the dominance of those ideas left individuals powerless to resist tyranny in Hitler's Germany, the country long renowned for its philosophers.

Machan completely neglects to mention that the second half of the book is devoted to American intellectual and cultural history. It presents the philosophical foundations of the American Republic and then traces the way in which increasing attacks on reason and man's rights by leading intellectuals have left America vulnerable to dictatorship.

If your readers want to understand how philosophy rules human affairs, and why ideas are weapons of oppression or of self-defense, Peikoff's book is essential reading. It would be an injustice if Machan's review were to cost this book the wide audience it deserves.

Robert Hessen
Stanford, CA

Getting Parallels Straight

Leonard Peikoff's *The Ominous Parallels* is a spellbinding philosophical-historical account of the world's greatest conflict—the war between everything that capitalist America stands for and presupposes and what the last several generations of intellectuals have been teaching. The book makes intelligible the sweep of developments spanning centuries and cutting across the entire intellectual and cultural spectrum of the modern world. At the end, it leaves the reader actually able to understand why the world is in the intellectual mess that it is in.

This is not enough for Tibor Machan. He finds the book "unsatisfactory," because it wastes very few words discussing the non-contributions of others, who have not even attempted to undertake what it accomplishes.

Machan has two other objections: that the book does not prove its case and that its "documentation is suspect." Concerning the first of these points, it is sufficient to say that anyone who reads *The Ominous Parallels* can decide for himself. The second point requires comment.

Machan appears to have read footnote

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one of chapter one and none of Peikoff's other references. Since Peikoff credits me in that footnote for the translation of several passages, Machan concludes that Peikoff "does not rely on standard translations of the philosophers whom he discusses and does not defend his choice of a private translator, a friend of his whose German may be impeccable but who is not a philosopher but an economist."

This statement is simply false. Peikoff *does* rely on the standard translations of the philosophers he discusses. The only passages which I translated are a few from the Nazi polylogist Tirala and from Hitler, for which, as far as Peikoff and I are aware, there are no other translations available, standard or otherwise. Had Machan troubled to read Peikoff's footnote references beyond number one of chapter one, he would have seen the references to all the standard translations....

George Reisman
Laguna Hills, CA

Mr. Machan replies: Peikoff says (p. 343): "I owe this translation, and several later ones, to Professor George Reisman." Only two others say "(trans. G. Reisman)"; yet other quotes, occurring within secondary sources whose translators are sometimes noted by Peikoff, have no translator attribution. Thus, there are grounds for suspicion. When the influence of ideas is being traced out, it is important to know what the persons supposedly subject to the influence actually meant. Also, "spellbinding" is not an adequate attribute of a book that should have been written in a scholarly fashion because its subject matter cannot be treated in any other way.

The Ominous Parallels is supposed to be historiography, tracing out the relationship between various events (ideas and political upheavals), so it must stand the test of comparative analysis. Ideas do have consequences, but how various events in history were produced needs to be proven. A scholar proceeds by subjecting himself to (imaginary or assisted) cross-examination instead of merely pleading his case.

Dr. Peikoff wrote a superb scholarly work, his doctoral dissertation; but he tried to settle for less in this book, presumably so as to appeal to a wider audience. The topic does not yield to this desire, unfortunately, however much his friends might wish to rescue him from the consequences of his actions.

Locked Out

None of the various reviews that I have read of Leonard Peikoff's *The Ominous Parallels*, including that by Dr. Machan (this is *not* intended as a criticism of Dr. Machan), has mentioned one aspect of *Parallels* that I find particularly irksome: Peikoff does a hatchet-job on John Locke's *An Essay Concerning Human Understanding.*

Peikoff's mentor, Ayn Rand, claimed: "The only philosophical debt I can acknowledge is to Aristotle," and she complained of plagiarism when she felt that *her* thoughts were being used without due accreditation. Yet it is painfully obvious that her *Introduction to Objectivist Epistemology* owes much to Locke's *Essay*, none of which she acknowledged; Rand not only appropriated his ideas, she pirated some of his terminology and illustrative examples.

Could it be that Peikoff hopes that readers of *Parallels* will be dissuaded from reading the *Essay* and that they might thus never learn of Rand's indiscretion?

Daniel Kian McKiernan
Westerville, OH

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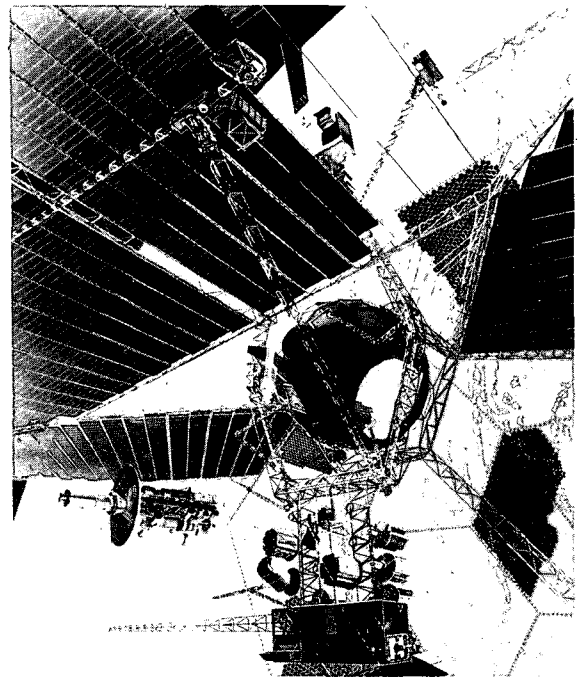

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●**Private space stations.** NASA's own internal studies show that a private corporation could develop and build a permanent, manned space station more efficiently and economically than the space agency. Such a station, serving the needs of the space communications and manufacturing industries, might indeed be a very profitable venture. And in Houston, the first private space station is already under design by a small engineering firm headed by NASA's former chief designer Max Faget.

●**The Amateur Space Telescope.** This amazing astronomical instrument—built by amateur astronomers for less than $100,000—will be ready for launch before NASA's own Space Telescope. And for certain types of observations, such as studies of Halley's Comet, the AST will actually out-perform NASA's one billion dollar instrument.

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brickbats

We can all rest easy now that the Washington State legislature has deregulated the size of a loaf of bread. Previously, bread for commercial sale had to be baked in pans of specific sizes—a law that precluded baking of small or odd-shaped loaves. The half-baked opponents of deregulation included—you guessed it—the state's commercial bakers, who complained that the bill would force them to retool to meet competition. Rep. Helen Sommers, the prime sponsor of the new law, wasn't surprised by the bakers' reaction. She commented, "This bill is a symbol of what is often said: 'Get government off my back, but don't deregulate my industry, don't take away my protection.' "

Henry Christmann's 6-by-10-foot tomato garden in Long Island, New York, has cultivated a big rhubarb with the US Department of Agriculture. Christmann likes to putter around his tomato patch in the summer "just to keep myself in bacon-lettuce-and-tomato sandwiches." Ha! And he expects the USDA to believe that. Agricultural officials sent him an official census questionnaire, a 20-page document asking how many acres he plants, what kind of crop rotation he uses, and how many horses he owns. Since Christmann grows about 10 tomato plants a year, he threw the form away. Now it gets nasty. Agricultural bureaucrats insist that for Christmann to get on their list, he must have sold some of those plants. They sent Christmann a follow-up letter, and if he throws this one away, he's violating Section 221 of the marketing law and the case will be turned over to the Justice Department. Christmann may well end up pouring cement over the "farm" and buying his tomatoes in the supermarket. We have a good idea what Mr. Christmann could do with some rotten ones, too.

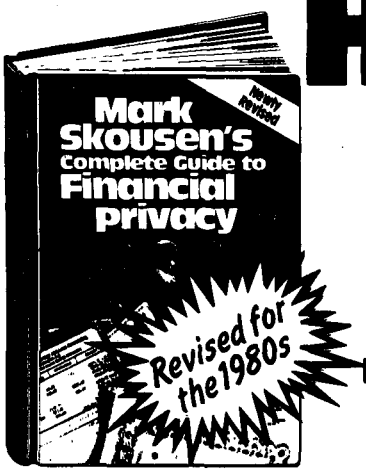
Down in Kentucky, they had a good old-fashioned burning of books and records. Among the items tossed onto the bonfire were records and tapes by rock groups like Kiss, Creedence Clearwater Revival, and the Beatles. One Mills Brothers album also was destroyed. *The Mills Brothers!* Perhaps the 250 parishioners of the Community Pentecostal Church of God felt that old classic "Up the Lazy River" encouraged sloth. By the way, the church is located in Independence, Kentucky.

Heterosexual male school teachers in West Virginia had better not ever admit to eating quiche or enjoying the ballet. They could be fired for having a *reputation* as homosexuals, even if there's no proof, according to state Attorney General Clark Woodroe. Although homosexuality isn't illegal, it's considered immoral in most of West Virginia. Teachers may legally be fired for immorality, and a teacher's reputation may be considered in determining morality, Woodroe says. His opinion states, "If the person under consideration has not been observed in an overt homosexual or lesbian act, but by his other behavior has acquired a reputation as a homosexual or lesbian, there is precedent under West Virginia and federal laws for admitting such reputation as evidence." Woodroe adds that discreet homosexuals might fare better than those who are open about it. The closet in West Virginia may be getting mighty crowded.

Two years ago, Michael Giat, 12 years old then, got a part-time job cleaning the sidewalk in front of the Columbia Savings and Loan Association branch in Queens, New York. He earned all of two dollars a day. The night before Christmas 1980, snow fell. The next day, a fellow named Carlos Grados fell—on patches of snow in front of the bank. He said he fractured his wrist, and he sued the bank for $750,000. Some genius in the bank's legal department decided that young Michael entered into a contract for snow removal and therefore was responsible. Michael pointed out that he's a minor and that the bank was closed on Christmas Day, so he couldn't use the bank's shovel anyway. Embarrassed bank officials dropped their action against the youth but wouldn't comment further. There is poetic justice, however. Burglars looted the bank's safety deposit boxes shortly after the incident became known. Officials wouldn't comment about that, either.

Yes, Virginia, there *is* fat in the defense budget. The Navy spent $11,225 to decorate a captain's office. The commanding officer at Camp Lejeune Naval Regional Medical Center in Jacksonville, North Carolina, sits on a $1,882 chair—a throne that cost $500 more than the one President Reagan sits on during cabinet meetings. Two Oriental-motif rugs that cost taxpayers almost $2,000 soften footsteps in the captain's office, and visitors make themselves comfortable in $1,000 guest chairs. Join the Navy—and put up your feet!

—MARK EDWARD CRANE



HOW TO MAKE YOURSELF INVISIBLE TO THE I.R.S.

An Urgent Message from Privacy Expert Mark Skousen

Three years ago I wrote the first edition of *Mark Skousen's Complete Guide to Financial Privacy*. Since then, our personal privacy has been invaded by even more regulations and technological innovations, reminiscent of George Orwell's "Big Brother" society, prophetically titled *1984*. (You don't need a calendar to see that 1984 is less than 20 months away.)

With changes in the tax law and new court decisions affecting your personal privacy, I've decided to completely revise my original manuscript and bring you up to date on all new privacy regulations, and how to avoid them, *legally*. This new 1982 edition has been thoroughly rewritten, with dozens of new pages of timely tips. It's a whole *new* book. I believe it's urgent reading for you, right *now*, so I've worked out an arrangement with the publishers to give you this book **FREE**, or on a 30-day, no-risk trial basis.

"A book on privacy?," many readers ask. "What have you got to *hide*?" A privacy-seeker might answer, "none of your business," but I like Harry Schultz' answer better: "Privacy from government is perhaps the most important thing in life right now." For 150 years, there was relatively little government reporting, because there was very little government: no Social Security number, no income tax, and very few taxes of any kind. Even the 10-year Census was limited to five simple questions: name, address, age, sex, and citizenship. Most Americans were self-employed and seldom borrowed money, so there was no network of bank credit ratings, employer files, health records—the electronic *gossip* so prevalent today.

Whenever you give out your *number*—Social Security number, credit card numbers, even your phone number—you open up electronic files containing every embarrassing bit of data (some of it *false*) ever recorded *about* you, or *by* you. Each American has over 50 financial files with number or name, on them, and dozens of government agencies and private snoopers think it's their business to find out every incriminating detail about your past, and present, financial status.

Is privacy legal? This question wouldn't have been asked 200, or 100, or even 50, years ago in America. Financial privacy was one of the premises for the Declaration of Independence, and privacy is implicit in the Bill of Rights to the Constitution. Just 50 years ago, Justice Louis Brandeis wrote, "The right to be let alone is the most comprehensive of rights, and the right most valued by civilized men" *(Olmstead v. United States)*.

My book is not for criminals. (They already know all the illegal methods.) My book is for concerned citizens who don't want to break the law, but want to do everything possible to keep the government, business competitors, or prying friends or relatives out of their private lives and their financial affairs. If secrecy—financial or otherwise—is important to you, I'm certain my book will help you.

20 Reasons You Need PRIVACY (Now More Than Ever)

1. The frightening privacy implications of the 9-digit Zip-code (p. 17).

2. Four foreign investments that may legally circumvent U.S. tax reporting requirements (p. 102–107).

3. Seven steps to avoid an audit, with 8 dos and don'ts if you *are* audited (p. 201, 210).

4. 20 countries with no exchange controls, plus more than 100 countries which still try to control the money crossing their borders (p. 56).

5. How your bank account reveals misleading secrets about you, and 14 alternatives to the standard checking account (p. 30–47).

6. An analysis of eight major tax havens, half of them within 3 hours of the U.S. (p. 80–86).

7. 35 offenses for which your Swiss bank secrecy rights might be discarded (p. 69–71).

8. Why you should avoid bank safe deposit boxes, and 14 private vaults that give you a safe, private alternative (p. 197–201).

9. Five forms of portable wealth more valuable, ounce for ounce, than gold (p. 118–120).

10. Should you use blue "copy-not" pens to prevent government snooping? The answer may surprise you (p. 38).

11. NEW sections on private real estate, tax shelters, and barter transactions (p. 121–124).

12. Setting up a living trust to make your will private (p. 226).

13. The nine major credit ratings, and what they mean (p. 159).

14. Why you should get passports for your family **NOW**, plus the information you can legally omit from the passport application form (p. 150).

15. 270 private no-load mutual funds, where investing is your own business (p. 112).

16. Six reasons why you need financial privacy **NOW** (p. 3).

17. Four ways to get private loans, with no Social Security number required, in most cases (p. 160).

18. Two little-known tricks to insure telephone privacy (p. 127–133).

19. A simple contract for your banker to sign, preventing unauthorized snooping in your bank account (p. 30–31).

20. 24 *more* steps to financial privacy (p. 228–230).

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TRENDS

MORE FINGER POINTING AT INDEXING OPPONENTS

In a recent editorial in these pages ("Recovery Saboteurs," Apr.), we called attention to the growing big-government constituency that wants to repeal indexing of personal income tax brackets scheduled to take effect in 1985. By adjusting tax brackets to the rate of inflation, indexing would put an end to the windfall revenue government reaps when inflation pushes taxpayers into higher brackets. It is bracing to note, therefore, the rising sounds of fury in opposition to the repeal of indexing.

"Indexing is worth having for honesty's sake alone. If the Government needs more money, let it raise taxes openly and permit the citizenry to judge," intoned one irate voice, adding that "indexing favors *low*-income taxpayers—a point apparently lost on liberals who want repeal." This from a recent *New York Times* editorial entitled "Truth in Taxing."

Wrote Council of Economic Advisers Chairman Martin Feldstein in the *Wall Street Journal*: indexing "holds the key to controlling the future growth of government spending and to preventing a resurgence of spiraling inflation." Feldstein noted that the political temptation to repeal indexing is strong, "because it increases revenue without explicitly increasing taxes," adding that this "is the very opposite of responsible budgeting."

Feldstein also pointed out—as did the *Times* editorial—that indexing proportionately is far more favorable to lower-income taxpayers and that repeal would harm this group most. A detailed and compelling analysis of this point is made by Heritage Foundation analyst Thomas Humbert in a Backgrounder report, "Tax Indexing: At Last a Break for the Little Guy."

Assuming an annual inflation rate of 8 percent, Humbert shows that, without indexing, "the average tax bite [from one year to the next] increases by a high of 26 percent for the $12,000 income earner, to just 9.6 percent for taxpayers making $150,000 or more."

"Year after year, Presidents and Congresses have thus been piggybacking on inflation to increase the *proportion* of income taxed—raising taxes without ever voting to raise them. Indexing will end the deception." With such sentiment issuing from the liberal conscience of the *New York Times*, there may yet be hope for the survival of indexing-imposed honesty.

NOW, THIS MESSAGE: PBS CAN PAY ITS WAY

Not so long ago, it was pure sacrilege to even suggest the airing of commercials on so-called public television. Then the notion evolved into an item of controversy. Now it is a reality. On an experimental basis, 10 affiliate stations of the Public Broadcasting Service (PBS) have been broadcasting selected paid advertisements, some since April of last year.

The experiment was proposed by the Temporary Commission on Alternative Financing for Public Telecommunications, established by Congress in 1981. As federal funding for public broadcasting declined with the advent of the Reagan era—from a 1981 Carter-budget high of $172 million to $137 million in 1982 and $105.7 million for 1983—the nation's 296 PBS affiliates have had to find other sources to compensate for the federal cutbacks.

Selling commercial time is just one of many ways PBS stations can raise money. Others include additional leasing of PBS satellite facilities to other broadcasters (some satellite space already is rented out), producing shows for cable and commercial TV, selling video recordings of shows, transmitting high-speed data, and providing closed-circuit links (between universities and hospitals, for instance).

Airing paid ads, however, seemed the most likely source of income. And the results of the experiment have so far been encouraging. The New Orleans station WYES, for example, found it could generate $80,000 a month by selling commercial time, more than making up for its federal-funding cutbacks this year. Negative viewer response has been almost nonexistent, and the station's fund-raising from viewers has not been ill-affected. Estimates of potential ad revenue for *all* PBS stations now range from $104 million to $160 million a year.

Nonetheless, advocates of subsidized television argue that the quality of programming on PBS will be "tainted" by ads, that programming will have to support commercial values. Indeed, this is the view of Edward Pfister, president of the Corporation for Public Broadcasting, the quasi-governmental entity that oversees the PBS. But in a recent *Los Angeles Times* op-ed piece, Kenneth Robinson, a member of the congressionally appointed Temporary Commission on Alternative Financing for Public Telecommunications and a supporter of the ads, pointed out that "newspapers, magazines, and even high-quality commercial-television programs are currently sustained by advertising revenues, and editorial content has not been necessarily 'corrupted' by the business side of these enterprises." One need only think of the commercial success of *60 Minutes*—no friend of big business—to see the truth of Robinson's contention.

VIET CAPITALISM: BAD MARX, GOOD MARKS

How ya gonna keep 'em down on the collective farm after they've seen Western culture and the profit motive? The Vietnamese government certainly doesn't have the answer. Ten years after the Communists' victory in South Vietnam, one would think they would be at least a little bit disturbed by the unmistakably capitalist tendencies of many of their subjects, but that doesn't seem to be the case.

In Ho Chi Minh City (Saigon), for example, there is a thriving street market. *Wall Street Journal* reporter Barry Wain recently found that imported cassettes sell by the hundreds on the city streets for about $1.50 apiece. Different streets and different areas specialize in electrical items, radios, cameras, bicycle parts, and food. And despite Vietnam's serious economic problems, there's an abundance of Japanese stereo equipment, microphones, and calculators.

"Wheeling and dealing, trading and scheming as furiously as ever," Wain wrote, "Saigonese display contempt for Hanoi and its socialist policies. They snarl about 'the communists' as if they were still an underground organization rather than the central government."

Curiously, the government tolerates the street trade, although it taxes the trade and extracts space rent from some street vendors. One woman who rents 14

square feet of stall space complained to Wain that "the government just looks around and when it sees we're selling more, it raises the rent."

In agriculture and industry as well, the government has been surprisingly liberal. Despite passionate debate within Communist Party and government circles, "capitalist-style incentives for farm and factory workers" have been introduced in the last two years. It may not be in the Marxist-Leninist spirit, but it seems to be working. At the Ai-Quoc agricultural cooperative near Hanoi, for example, the government previously purchased all rice at a low, fixed price; but now, it sets a quota and pays free-market prices for the surplus. Cooperative chairman Nguyen Van Nieu says, "Everyone likes the system. They can sell their surplus and get money to buy more clothes and consumer goods."

Perhaps there's a domino theory at work here. Once a Marxist regime permits such incentives, could department stores, fast-food restaurants, and Disneyland East be far down the line? Time will tell.

HEALTHY SYMPTOMS

It's always encouraging to see free-market arguments presented in unexpected forums, but an editorial in the January issue of *Prevention* magazine may be especially noteworthy. A magazine that has explored unorthodox but often effective modes of health care, *Prevention*—which has a circulation of 2.2 million—published a ringing endorsement of a free market in health care that relies on explicitly individualist arguments.

Writing of "the freedom to take our health into our own hands in any way we choose," Editor Robert Rodale urged that "we need to have more freedom to prevent disease and to solve our own health problems." Many "health freedoms," he noted, are limited by medical-practice acts in each of the 50 states and the District of Columbia (these acts generally license medical practitioners, forbid unlicensed practice, and make it extremely difficult if not impossible for consumers to find any information about the competence of licensed practitioners). "All these laws protect a medical monopoly which we never needed, and which we especially don't need now," said Rodale.

He is somewhat optimistic that medical-practice acts can be reformed, since other professions have already been deregulated and there is popular sentiment for encouraging competition in the provision of services. And he announced the creation of a People's Medical Society to promote "health freedom" (which, he emphasizes, also requires a realization that "health is something we create for ourselves by the way we live,...[not by] unnecessary flight toward professionalizing health.")

Meanwhile, a Berkeley-based group called the Coalition for Health Democracy has been working to liberalize California's Medical Practices Act, which legislates that with few exceptions, only physicians may diagnose or treat *any* physical or mental condition. Coalition founder Dana Ullman attacks this 1937 law as based on "medical chauvinism"—the assumption that there is only one method of healing and only one type of training for learning about healing and that it is the government's duty to limit health care accordingly. Ullman supports a freer market in health care. He observes: "For liberals, it's a civil liberties and a consumer rights issue. For conservatives, it's an issue of individual freedoms and individual

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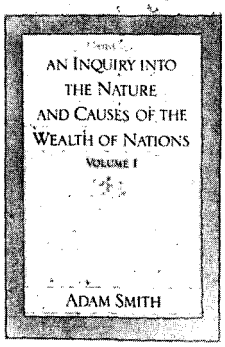

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By Adam Smith

The Glasgow Edition

General Editors: R. H. Campbell and A. S. Skinner
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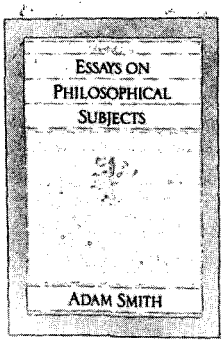

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rights. It's also a women's rights issue since a key part of the women's movement has been to assert that people should have control over their own bodies...and an economic issue [involving] a more open medical marketplace with greater competition between health and medical professionals."

In fact, the staff of the California Board of Medical Quality Assurance has already prepared a proposal for some reform of the Medical Practices Act. The proposed change would permit anyone to treat patients for any condition except for prescribing, surgery, radiation, invasive instrumentation, and diagnosis of disease or other pathology in that group of activities. The change would, however, mandate state registration and information disclosure for alternative health care practitioners.

The staff proposal hasn't been accepted yet by the board itself, and in any case, it wouldn't come even close to creating a truly free market in health care. But it would be a start. As Ullman says, "It is time that consumers be granted basic human rights for self-determination in health care," and a free market provides the structure for that.

ZONING DETACHED FROM THE REAL WORLD

If you had the unhappy experience of checking out a home purchase in the classifieds of your Sunday paper recently, you may have noticed that the price of housing remains outrageous. There are several reasons for high housing costs, but one that is rarely mentioned is one of the great sacred cows of American politics—the single-family, detached-house zone.

The chances are great that you live in a city with exclusive single-family zoning—an estimated 95 percent of all zoning ordinances have such provisions. For decades, the wisdom of this standard has been an item of faith for liberals and conservatives alike, so it has taken some audacity for a prominent Chicago lawyer named Richard Babcock to challenge it publicly.

In a recent presentation at a Los Angeles conference, Babcock described the effect of exclusive single-family zoning on the housing market. Decades ago, local politicians used zoning to segregate tenements and apartment buildings—where new immigrants lived—from "the broad expanse of middle-class clapboard and brick houses that lined most of the suburban and small-town streets." But what these politicians and the planners in their employ didn't account for and couldn't have accounted for is that the housing market has changed radically.

The waste and misallocation of resources that comes in the wake of government zoning is appalling. In southwestern Connecticut, there are 33,000 acres of vacant land zoned minimum one-acre residential—it lies vacant because there isn't enough demand, at the prices that would have to be charged, for single-family housing. In urban and urbanizing areas of southern California, there are 700,000 acres of vacant usable land zoned similarly; in Topeka, Kansas, 60,500 acres in single-family districts are vacant; and even in New Orleans, 6,500 vacant acres are zoned for single-family units.

Although Babcock is not a zoning-law abolitionist, he knows where the solution to the problem can be found. He asks, "What can be said in defense of the detached single-family house district? What else other than the market? If that is what the buyer wants and is willing to pay for, then let all residential zones be so designed. But if the exigencies of demographics and cost lead to new demands for housing, why should a local ordinance force the builders and buyers to pay the costs of detached single-family units?"

Why, indeed.

INDIANS TAKE GAMBLING CHANCES

Many churches depend on their weekly bingo game for a considerable portion of their income. Several state governments have cashed in on lotteries as an easy source of revenue. Now, tribes of American Indians are also getting into the gambling game as a source of jobs and income for Indians on reservations. But not everyone likes it.

Indian reservations are generally viewed as independent "nations" subject to federal, rather than state or local, law. Despite this, law-enforcement agents in Riverside County, California, earlier this year enforced an antigambling ordinance and shut down both a poker casino and a bingo parlor on an Indian reservation. When the county's actions were contested in federal court, the judge ruled that the poker casino, but not the bingo parlor, would be allowed to operate. Because the operators of the poker casino were acting as a tribe, argued the judge, they are exempt from the local ordinance, while the bingo business—as the enterprise of a single Indian acting on his own behalf—is not entitled to the exemption.

In January, the Yaqui Indian Reservation outside Tucson, Arizona, opened a 20,000-square-foot bingo parlor, a facility that cost $1 million to build and can accommodate 1,300 players. Almost immediately, Tucson and Arizona state authorities sought to outlaw bingo playing on the reservation, where more than 800 people—mostly non-Indians from Tucson—each night try their luck at winning $12,000 in prizes. The authorities argue that reservation gambling violates state law and takes business away from churches and charities licensed to operate bingo games.

The Yaquis, however—along with some 40 to 60 other tribes throughout the country who within the last two years have opened gambling operations—claim exemption from local and state laws. And under federal law, there is no provi-

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sion to prevent the Indians from operating gambling enterprises. Indeed, a 1981 Supreme Court ruling upheld the right of the Seminole Indians of Florida to operate bingo games on their reservation without local or state regulation.

So fired up over the issue are Arizona state legislators that a bill is now in the works to prohibit non-Indians from collecting large winnings from bingo games played on the reservation and from assisting in operating the games. Among the Indians' allies in trying to keep the games going are the players themselves. When a tribal leader announced to a parlor full of players the Indians' intentions to fight the pending regulation, response from the crowd was enthusiastic.

A CLEAN SWEEP FOR CONTRACTING OUT

It probably comes as no surprise, but we now know—thanks to a report by the General Accounting Office—that contracted custodians clean Post Offices at about *half* the cost of Postal Service custodians. The difference is due largely to the higher wages and benefits paid to Postal Service employees.

The GAO found that in buildings of 10,000 square feet of less, the average cleaning cost is $1.88 per square foot with Postal custodians and 77 cents with contractors. In some areas, contracted cleaners perform at a cost as low as 69 cents per square foot. And, reports the GAO, contractors clean as well as Postal custodians. No comparison of costs was made for offices larger than 10,000 square feet, but the GAO estimates an average saving of 20 to 34 percent with contracted cleaners, not quite as dramatic as the savings with contractors in the smaller offices.

Though the Postal Service uses contractors to clean more than half of its offices of 10,000 square feet or less, rarely does it contract custodians to clean its larger buildings (though these represent 75 percent of total post office space). The GAO report, released at the end of last year, adds yet another layer to the mounting evidence that the private sector provides goods and services at far lower costs than the government.

§ WEALTH §

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CHILDREN'S TV: THE PLOT THICKENS

One of the fine traditions of American politics is the suffering-kiddies appeal—innocent children will lose out unless we approve loan guarantees for Chrysler, increased funding for the Export-Import Bank, and subsidies for golf courses in suburban Louisville. Specious as the argument may be, one must admit its wonderful versatility. Indeed, it might be called the perfect one-size-fits-all political argument.

A rather creative application of the suffering-kiddies appeal was made in March by Bruce Christensen of the National Association of Public Television Stations. In this instance, Christensen suggested that the suffering of innocent children is inversely correlated with taxpayer funding of educational television—the less money, the more suffering. "At current inadequate funding levels, the question is not how to do *more* for children but whether we can continue for long doing what we do now," Chistensen warned.

But are more taxpayer dollars for television the only way we have to prevent a generation of anomic and culturally impoverished children? Perhaps not. In fact, commercial cable television has recently been coming up with a dazzling variety of programming for children. One such service is Nickelodeon, which provides 13 hours daily of nonviolent children's programming with such shows as *Pinwheel* (sort of a *Sesame Street* without the alphabet), *Livewire* (a variety program), *You Can't Do That on TV* (a junior version of *Laugh-In*), and in the near future, a revival of the famed *Mr. Wizard* series that enriched the childhood of more than one REASON reader. Another cable service is the new Disney Channel, a pay-TV channel with original series such as *Welcome to Pooh Corner*, *Good Morning Mickey*; and a cartoon series called *Mousterpiece Theatre*, hosted by George Plimpton.

Some of the toughest critics of children's television are not children but former FCC commissioners (one former commissioner, Newton Minow, originated the phrase "vast wasteland" describing television generally). But even ex-commissioner Nicholas Johnson, who has criticized several aspects of commercial television in the past, is reportedly impressed with the state of children's programming on cable.

Government-funded television may have to cut back its programming as its money dwindles—but will innocent children suffer? Probably not. They'll just change channels.

STATES ACCELERATE IN OPPOSING LIMIT

Enacted by Congress in 1974 as a fuel-saving measure, the national 55-mile-per-hour speed limit was never very popular. Many localities throughout the country chose to enforce it only slightly, and in the West at least, the idea of going slow didn't ever settle into the ways of many motorists. And official resistance to the speed limit is continuing to mount.

In Nevada, for instance, drivers exceeding the 55-mph limit up to 70 mph are fined just $5 for wasting energy. Wyoming levies a $5 fine on motorists exceeding the limit up to 74 mph. And in Utah, fines and penalty points are less for those caught exceeding the limit up to 64 mph than for those traveling at speeds above 64 mph.

More boldly, the Colorado and California state legislatures are now considering bills—which stand good odds of being passed—that would repeal the 55-mph limit. The rub is the fact that the Reagan Transportation Department, which has

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been bullish on the limit despite a 1980 GOP promise to repeal it, has threatened to withhold federal funding for highway construction—which totals $12.1 billion—from states that do not comply with the federal law.

Other state legislatures are watching to see how California and Colorado fare in their open challenge of the Transportation Department. Kentucky's, for one, has enacted a bill to allow higher speed limits if the federal government yields on the issue. And some legislatures, including those of Idaho, North Dakota, and West Virginia, are considering changes in their speed-limit laws or in the enforcement of existing laws.

TAKING FARMERS TO MARKET

Since the Great Depression, South Africa, like the United States, has seen a proliferation of agricultural control boards—there are 23 of them now—and farmers' cooperatives. The industry-dominated control boards, backed up by the enforcement power of government, generally determine how much of their output individual farmers can sell, and at what prices; and some of the co-operatives have coercive powers. There is a Land Bank in South Africa, as well—a sort of central bank for agriculture—which provides loans to farmers at below-market rates. But there are signs of late that South African farmers are turning away from state protection and seeking to establish a free market in agriculture.

Maize (corn) growers constitute South Africa's largest agriculture sector, and 80 to 90 percent of these farmers are represented by the National Maize Producers Organization (NAMPO). Since the majority of Maize Board members are elected by the farmers, then, NAMPO effectively controls the board. The producers' organization recently sided with South Africa's Free Market Foundation (FMF) and other free-market groups in calling for the immediate deregulation of agriculture and the simultaneous decontrol of other aspects of the economy. The producers' group came to realize that farmers lose more as a result of controls than they gain from assistance programs. It also recognized that government regulation and protection of industries that supply farmers—the manufacturers of diesel engines, vehicles, steel, and tires, for example—impose burdens on farmers as well.

In recent talks with the FMF, reports REASON correspondent Leon Louw, the maize growers' organization agreed that through the Maize Board it would summarily terminate maize price controls and restrictive licensing for millers and bakers and would phase out the one-channel marketing system now under the board's control. Because maize is South Africa's largest agricultural product, the board's actions could have far-reaching ripple effects throughout the nation's economy.

HONG KONG PAVES THE WAY FOR AUTOMATED TOLLS

An automated toll-collection system that would let drivers bypass congested toll booths is soon to be installed in Hong Kong. Similar to concepts discussed in REASON's January 1982 cover story ("Rush Hour Remedy"), the system would make use of specially encoded

Who Is F. A. Hayek?
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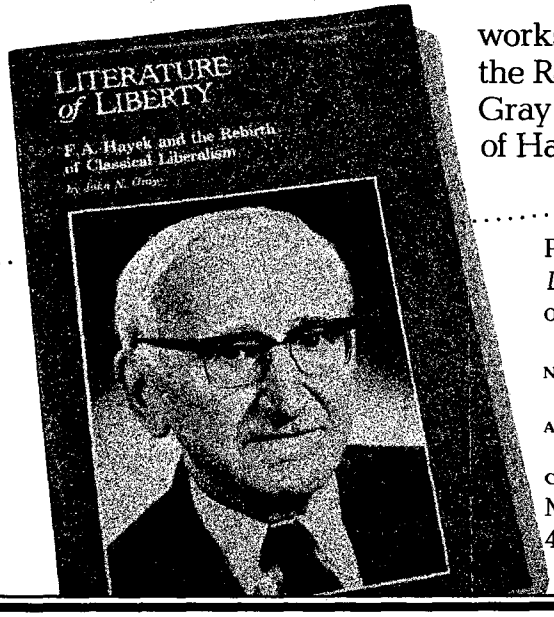

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devices mounted on each vehicle. Whenever a vehicle passed over a sensing point, wires buried in the road would detect its presence and record its passage for subsequent billing. This technology makes it feasible for road-user fees to be varied by time of day and location so as to match supply with demand, encouraging car pooling and the use of mass transit, staggered working hours, and other means of reducing peak-hour congestion.

Hong Kong Transport Secretary Alan Scott told the Reuters news service that a pilot program has been approved by the governor. It will outfit 5,000 government vehicles with code boxes and install a limited number of sensors in the roadway, at a cost of $5.3 million. If the pilot program is judged successful, it will be extended throughout the colony, with the ultimate cost reaching $50 million. Scott indicated that interest in the idea had also been expressed by authorities in Manila and Singapore, "but we will be the first in the world to do it."

PEASANT LIFE AT PRESENT UNPLEASANT

For any starry-eyed city slicker who dreams of small-farm living—raising rutabagas and strawberries and reading Ralph Waldo Emerson next to a wood-burning stove—a recent article by agricultural economist Luther Tweeten in *Science* magazine may come as a jolt. Tweeten suggests that small farms and small farmers aren't all they're cracked up to be.

Tweeten examined eight fairly common beliefs about small farms and found that they're either way off the mark or totally false. One such belief is that small farms provide a higher quality of life. Yet detailed studies of approximately 800 rural families in Iowa and North Carolina found widespread feelings of alienation, demoralization, and pessimism, possibly because these families generally had extremely low income. Tweeten also pointed out that there has been and continues to be a mass exodus from small farms and a shift of operators from full-time to part-time status.

Another belief is that operators of small farms and owner-operators take better care of their soil than do other farmers. Yet a survey of 37,000 land owners found that in none of the 10 regions of the United States did average rates of erosion by nonfamily corporations exceed those of other types of ownership; and in the Southeast, almost 57 percent of land owned by nonfamily corporations used soil-conserving practices, whereas only 36 percent of land owned by families used these practices. Furthermore, on a nationwide basis, higher income levels of farmers were associated with lower rates of erosion.

Tweeten found that small farms are not more energy-efficient than large farms. (In fact, energy costs per dollar of gross receipts per acre and per unit of production expenses were consistently *higher* for the smaller of any classes of farms compared.) Also, contrary to the belief that federal programs have hastened the demise of small farms, Tweeten points out that "the most comprehensive analysis to date of the impact of commodity programs concluded that...government price and income payment policy has generally been neutral in its effect on farms of varying sizes producing program commodities."

Are small farmers better citizens? Do they contribute more to the community? Probably not, Tweeten concludes. "Given the importance of income and employment to well-being, the socially optimal size of a farm from the standpoint of the community is not a small low-income farm." The economically optimal size of farms is certainly not small. If we had to rely on a system of smaller farms, "consumers would experience substantial loss of utility because of lower farming efficiency and attendant higher cost of food."

In short, Tweeten rains on the *Mother Earth News*-Thomas Jefferson-Joni Mitchell parade celebrating the small farm. At least in agriculture, small isn't beautiful—it's inefficient, impoverished, and apparently not much fun.

MILESTONES

• *Pill power.* Three studies by the Centers for Disease Control, published in a March issue of the *Journal of the American Medical Association*, confirm a scientific speculation previously publicized in this column (Nov. 1982)—that birth-control pills do not cause breast, uterine, or ovarian cancer and, on the contrary, help to *prevent* cancer of the ovaries and uterus. The link between blood clotting and the use of the pill by women age 35 and older who smoke still holds.

• *Plane truth.* The Tupolev Tu-144, the USSR's supersonic transport reportedly modeled on the Concorde aircraft, has been permanently withdrawn from scheduled service because the aircraft is "too heavy and too inefficient," according to a Moscow civil aviation ministry official. He noted that the Concorde—a joint project of the British and French governments—is now practically out of service as well.

• *Celebs support pot.* Former television stars Tom Rettig of *Lassie* and Billy Gray of *Father Knows Best* have endorsed a California initiative to legalize marijuana. Rettig reported that his nearly 20 years of pot-smoking hadn't harmed his life.

• *An ease in apartheid?* For the first time in South Africa's history, blacks will be able to exercise limited ownership of dwellings in specially demarcated urban areas throughout the nation. Beginning July 1, the government will allow blacks to purchase 99-year leases on 500,000 government-owned houses located in racially segregated areas.

• *Entitlements ceiling?* At a meeting in March, the nation's governors endorsed a resolution that put them on record for the first time as calling for a restraint on the growth of so-called entitlements. As *Washington Post* columnist David Broder put it, "Such political 'untouchables' as Social Security and Medicare can no longer remain untouched."

• *Wild and crazy guys.* The Soviet Union has withdrawn from the World Psychiatric Association to avoid the humiliation of being expelled. The WPA congress scheduled for July was expected to suspend or expel the USSR because of its habit of incarcerating dissidents in psychiatric prison-hospitals.

• *Flying high.* The Supreme Court has thrown out the conviction of a college student discovered to have marijuana in his two suitcases after investigators detained him at Miami International Airport. A majority of the court agreed that the investigators had violated the Fourth Amendment ban on unreasonable searches and seizures.

• *We're ahead.* Richard DeLauer, the Pentagon's top scientist, reports that the United States is superior or equal to the USSR in 19 of 20 basic technologies that will influence the balance of power in the next 10-20 years. Moreover, the quality of our weapons is equal or superior to the quality of Soviet weapons in 27 of 32 separate categories.

—ROBERT POOLE, JR., PAUL GORDON, AND ERIC MARTI

BY PATRICK COX

FAIR WEATHER

Government weather forecasting soaks taxpayers to shower benefits on special interests.

The forecast for weather services is cloudy. There is a warming trend moving up from the private sector, but it is being affected by a wind out of Washington, D.C., blowing alternately hot and cold. Severe high pressure emanating from the Pentagon threatens to counteract the high-altitude entrepreneurial tendencies and could bring the private-sector warm front to a standstill before it gets a chance to really develop. The immediate forecast is continued uncertainty, and the long-run forecast is stormy, aggravated by worldwide meteorological socialism.

To most people, the Reagan administration's announcement this spring that it planned to sell off the government's weather satellites came as a surprise. The story made the front pages of the *New York Times* and *Washington Post* on March 19. Both *Time* and *Newsweek* carried skeptical news accounts the week of March 21, and the redoubtable Art Buchwald weighed in with a column parodying the idea, suggesting that pretty soon individuals would have to pay $10 for a national forecast and $50 for tornado warnings.

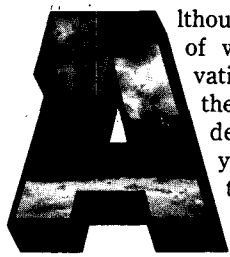
Actually, the idea of selling the weather satellites to private operators has been kicking around within the federal government for several years, as has the idea of charging certain users (but *not* individuals) for weather data. The National Advisory Committee on Oceans and Atmosphere (NACOA) spent much of 1981 and 1982 looking into the future of the nation's weather services. Concluding that existing services need to be improved and expanded, the committee considered as options not only increased taxpayer funding but user fees and complete privatization. And in 1982, the Office of Management and Budget directed the National Oceanic and Atmospheric Administration (NOAA), the government's principal weather agency, to study which of its several hundred services might be commercialized.

Government meteorologists are in a peculiar situation. They see a rapidly growing market in various industries for increasingly sophisticated weather information. But the source of the raw data—various agencies within NOAA—has no way to tap into the multibillion-dollar market. NOAA, under congressional mandate to protect life and property and to enhance commercial activities, provides its raw data essentially for free. The information provided is worth billions, but the only source of revenue is the annual appropriation from Congress.

These days, however, the government's weather agencies are experiencing the same budget cutbacks as other government agencies. At the same time, new technologies are making the potential for improved weather information enormous. Electronic breakthroughs have made possible automated weather data generation, but extensive placement of the equipment requires more funding. Computers used to analyze and store data are outdated, but money for upgrading the system has not been budgeted. The National Advisory Committee on Oceans and Atmosphere estimated that needed technological improvements over the next decade will require at least $1 billion in 1982 dollars. But with no public outcry for improved weather information, legislators are not excited about voting for expenditures in an area with no big political payoff.

Not surprisingly, then, as I talked to government officials in the course of investigating the weather front in the United States, I found a willingness among some government meteorologists to adapt market mechanisms to their agencies. Although none of them was willing to be quoted, they were receptive to the idea of implementing fees and contracting out more observational functions. Even the transfer of the government's weather satellites to commercial operators is welcomed by some—but not for attribution.

Of course, the official position of NOAA is that the provision of weather data is fundamentally a government function. And that seems to be the premise that has inspired widespread public and congressional dismay over selling the weather satellites—or any other suggested move toward privatization of weather services. But is there anything, really, standing in the way of free-market weather information—provided by private firms to users who pay for the amount and kind they want? That's what I wanted to find out as I looked into the current situation, the history of weather services in the United States, and the various interest groups who oppose putting weather on the market.



Although various degrees of weather-service privatization have been the subject of official debate for several years, the hot topic these days is the Reagan administration proposal to sell the government's weather satellites. It may come as a surprise to most people, but that proposal wasn't dreamed up by the administration. It is the latest twist in a long-standing move to let the private sector take over the government's Landsat program, which produces pictures of crops and geological formations from orbit.

In 1981 the Office of Management and Budget (OMB) decided to accelerate a Carter administration timetable for ending governmental operation of Landsat. Instead of extending into the 1990s, said OMB, the program would be ended after the launch scheduled for 1985, and the remote-sensing satellites would be sold to private operators as they were launched.

The decision, however, set off cries of alarm from much of the Landsat user community, who have grown accustomed to receiving the photos at a small fraction of their cost. Nobody disputed the eventual development of a market for Landsat data—estimates are that it will reach $10 billion a year—but many people argued that it would take far longer than a decade for a large enough market to develop to cover the program's costs.

That, essentially, was the conclusion also of Communications Satellite Corp. (Comsat), which was interested in operating Landsat. (Comsat was created as a federally chartered, stockholder-owned company in 1963 as a compromise, interestingly, between those who wanted to turn communications satellites over to the market and those who wanted the government to operate them.) In preparing an unsolicited proposal to OMB for taking over Landsat, Comsat came up with a package deal: Throw in the weather satellites—two geostationary satellites and two polar orbiters—Comsat said, and we'll buy all the satellites, design and launch replacements as they wear out, and save taxpayers' money by achieving economies (for example, by operating a common ground station to process both weather and remote-sensing data and later developing a dual-purpose satellite). As part of the deal, the government would have to sign a 15-year contract to purchase its remote-sensing and weather data from Comsat. The government would continue to provide weather information to users through the National Weather Service and other agencies, and Comsat could develop other commercial markets for specialized weather data, with the price paid by government declining as Comsat succeeded in this. The arrangement would ensure Comsat a profit while it carved out a market for earth-resources data from the Landsats.

How much money would the deal save the government? As much as $1 billion over 10 years, said Comsat—though that number has been challenged because in making the calculation, it assumed that the government would still operate Landsats far beyond OMB's cut-off date.

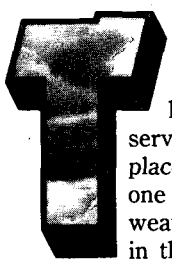
Visiting Comsat's headquarters in Washington, D.C., and the National Weather Service (NWS) in Silver Spring, Maryland, I was impressed by the difference between them. The profit-oriented business has plush, modern, expansive facilities located next to the luxurious Loews Hotel in L'Enfant Plaza; the top brass of the NWS are housed in the Gramax Building, across the street from the Econolodge. Yet it is the satellite system that provides NWS data that Comsat is vying for, and I couldn't help feeling sorry for the government meteorologists, whose offices look like they were furnished from junior-high-school teachers' lounge surplus. That is the irony of the government weather service—it is handling products of immense value but is forced to beg Congress for funds.

When I talked with Paul Maughan at Comsat, he seemed to be straining at the bit as he complained about the way NOAA is "dragging its feet" with transferring the satellites to the eager company. Maughan is director of Comsat's Earth-

star project—the firm's name for its proposed integrated weather and remote-sensing system. According to Maughan, the major criticisms of the transfer are related to the government's defense needs, but he also pointed out that there are plenty of government bureaucrats with a vested interest in continued administration of the projects.

The Pentagon has indeed protested sale of the satellites to Comsat "for security reasons." But Comsat, insisted Maughan, "is willing to cooperate with the military in supplying any data they require." This is in line with a Commerce Department proviso that whoever buys the system would have to provide "selected priority service to defense needs when required."

Meanwhile, however, other firms have jumped into the satellite-sales picture. Only Comsat has proposed taking over both programs. But two firms, RCA and Environmental Satellite Data, have expressed interest in parts of the weather system. And another, American Science and Technology Corporation (ASTEC), has proposed taking over operation of the Landsat satellites *without* a guarantee of government data purchase. The firm had previously announced plans to build and launch its own, privately financed remote-sensing satellites as successors to Landsat. ASTEC plans to launch the first of its satellites in 1984, using the launch services of Space Services, Inc., the private developers of the Conestoga rocket. Industry insiders say that ASTEC's offer has upset what Comsat had thought would be a no-contest decision, forcing NOAA to go through a full-fledged competitive bidding process.



Transferring the weather satellites to the private sector would not by a long shot bring weather services into the marketplace. The satellites are only one component of a complex weather-information system in this country that includes private firms but is dominated by the government as the source of raw data.

It is costing NOAA this year $150 million to operate the four weather satellites. They generate information that, along with data from other sources, is given away by the government in some cases outright and in some cases for the one-time cost of a hook-up into the system (currently $5,000). Altogether, the federal government is spending over $1 billion this year to gather, analyze, and disseminate weather information and conduct related research.

NOAA is the primary weather agency. One of its arms, the National Earth Satellite Service, operates the weather satellites (as well as, since January 1, Landsat). NOAA's Environmental Data and Information Service collects global meteorological and climate information and makes it available to a multitude of users—businesses, the media, agriculture, the scientific community, the general public, and federal, state, and local government agencies. And the National Weather Service (NWS) provides daily forecasts directly to the public, to the media, and to various sectors of the economy and government entities.

Various other federal agencies work jointly with the NWS to collect and disseminate information and carry out meteorological research. From the Department of Agriculture to NASA, a host of federal agencies have a hand in weather.

The heart of the government's weather network is data collection. In one year, 3.5 million observations are taken. They range from upper-air balloon observations and automatic electronic readings on ships and inaccessible areas to readings collected by thousands of volunteers. Over the past decade, satellites have become an important part of the data-collection process.

There are nearly 1,300 land stations providing weather data—about a third of them NWS facilities, a third FAA facilities, and the rest Department of Defense and other federal agencies. About 12,000 land-based volunteers report temperature and precipitation each day. Some are paid for their data on a fee basis by the NWS, and others provide data at no cost to the government. About 2,000 ships voluntarily report information from sea, and airline pilots channel high-altitude information to the NWS.

The data are routed to the NWS National Meteorological Center in Suitland, Maryland. The processing of data and preparation of forecasts and other products for users goes on at the National Meteorological Center, at NWS field stations around the country, and at other agencies' facilities.

Finally, data and forecasts are disseminated to users. Who are the "customers" for this valuable information resource? Most individuals don't get their weather information directly from the NWS (except for those who own specialized radios that can tune in to NOAA's Weather Radio frequency). Instead, the agency acts as a wholesaler, supplying its data to a relatively small number of "retailers"—newspapers, radio stations, and TV stations—who sell the information to *their* customers. Newspaper readers pay for the information when they buy the paper; radio and TV audiences "pay" by being subjected to advertising.

The government's other weather customers are also, like broadcasters and newspapers, large business interests. The main sectors of the economy needing specialized weather data are the aviation, maritime, transportation, and farming industries. Many operations in these industries rely on information provided by the government at no cost to them. Increasingly, though, private meteorological firms have found varying degrees of opportunity to take NWS raw data, sometimes adding additional data of their own, and offer it in more useful forms (more frequent updates, more detail, better analysis) to these industries.

There are hundreds of forecasting firms catering to a variety of businesses. There is now a 24-hour cable subscription channel offering up-to-the-minute weather information. Firms supply tailored weather information to the media—television, radio, and newspapers—that offer daily weather reports. Several firms offer specialized weather information to the maritime industries. Oceanroutes, for example, based in Palo Alto, California, provides information on the best routes for ships at sea. The information is tailored to fit the tonnage, power, and even hull design of their customers. With offices located all over the world, Oceanroutes provides international service.

The intensely competitive nature of the private forecasting business was driven home when I talked to Fritz Snideman, president of Oceanroutes, about the scope of their services. Even as I sat in his office, he was checking my credentials to make sure I wasn't an industrial spy. When he was satisfied that I was a journalist, he said that Oceanroutes is ready to expand into other forecasting markets, but the lack of any coherent government policy on what weather information will be provided "free" makes investment too risky.

Of particular interest is Oceanroutes' willingness to enter the aviation forecasting business. Private pilots can now get recorded weather forecasts by calling the nearest FAA Flight Service Station. But the timeliness and accuracy of these forecasts leaves much to be desired. Recently Compuserve, a computer utility for home-computer users, began offering more-detailed aviation weather reports and an interactive flight-planning service. Oceanroutes has plans to offer a more-sophisticated version of this service. Payment would be by credit card.

"There are a number of other services we would like to provide also, but government policy changes like the weather," complained Snideman. "We can't afford to invest in something the National Weather Service may later provide at no cost."

MacLaren Plansearch, based in Toronto, is another private forecasting firm. An international staff provides weather information for any place in the world. Many of MacLaren's clients are oil companies that depend on accurate weather information for the operation of their ocean-based drilling rigs. Customers are located, for example, in Korea, Libya, Borneo, Nova Scotia, and England.

Accuweather, known to many TV viewers for its private forecasts on the news in many cities, sells information to many large agricultural firms. Although the NWS offers agricultural weather reports at taxpayers' expense, Accuweather has found it profitable to provide more-detailed and sometimes more-accurate information to its clients. A 1977 incident underscores the economic value of good meteorological services. While Accuweather issued a severe frost warning to its citrus-growing clients in Florida, the government report at the time did not forecast a frost. Accuweather's clients were among the few prepared for the inclement weather, with smudgepots and fans ready. Not only did Accuweather's customers profit from good crops in a market that was badly hurt by the cold, but several of Accuweather's executives bought into the futures market, anticipating an orange shortage. They reaped an 833 percent return on investment in two weeks.

The construction business is susceptible to economic loss from weather changes, so building contractors buy information to assure themselves that their work will not be ruined by rain or wind. One day's payroll for a large project can be tremendous, and weather-tailored construction scheduling can make the difference between profit and loss. Rail shippers pay meteorologists to tell them whether to ship agricultural products in open cars or more-expensive enclosed cars.

The more specialized the information or the greater the need for accuracy, the greater the likelihood that the private sector will be found providing the weather reports. The NWS offers more-general information, though there are some exceptions, such as the information provided via the FAA to the airlines.

The NWS brings all its guns to bear whenever weather is life- and property-threatening. The NWS's Disaster Preparedness Program tracks and warns the public of tornadoes, floods, hurricanes, and other natural disasters.

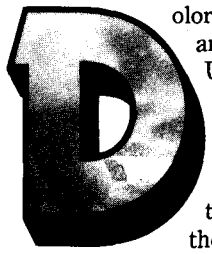
The government's weather services exist on both ends of the weather spectrum. On one end is information of the general sort delivered by Willard Scott on the *Today Show*. On the other end is the Tsunami Warning System that warns Pacific communities of earthquake-produced tidal waves. The private sector operates somewhere in the middle between emergency services and forecasts for the general public (although Accuweather, for example, has entered the latter market, as well).

To understand the weather market today, it is necessary to take Deep Throat's advice and "follow the money." Or in the case of the government, it may be more enlightening to follow the wealth, because the NWS is not operating in the market.

It is the raw data that represents the wealth. That is the resource that all government and private forecasting services work with. Ours has been called the age of information because of the increasing value of information in society. The weather information controlled by the government is worth its weight in gold. Taxpayers underwrite the generation of most of the data, but the result is offered at no cost to some users (such as agricultural firms) and for next-to-nothing to anybody who pays the one-time cost of hooking into the NWS network.

It is almost too much for anyone with an understanding of the economic facts of life to visit an NWS regional station like the one in Redwood City, California. Streaming into a computer terminal in a back room are satellite pictures and data from all over the world, courtesy of the government's information network. To the big metal terminal, a half-dozen cables are attached with corporate names like Grinnel, IPS, Oceanroutes, and MATSCO. The sight of all that wealth, collected at taxpayers' expense and flowing at nominal cost to profit-making businesses, is staggering.

Rich Wagner, the meteorologist in charge of the installation, didn't grasp the irony of the situation. Standing next to the terminal, he complained about NWS budget cutbacks. "We are at the point now with Reagan's budget," he lamented, "where there is no place left to cut without eliminating stations or programs." It's as if the manager of an oil refinery complained that there was no money for plant operations, while watching tanker trucks load up gasoline and drive away without paying for it. I became determined to find out how this business became a part of government in the first place.



olores Tremewan Martin, an economist at the University of Nebraska-Lincoln, provided the answer. Her research in the National Archives in Washington, D.C., documents the confusing, unstable relationship between private meteorology and the government.

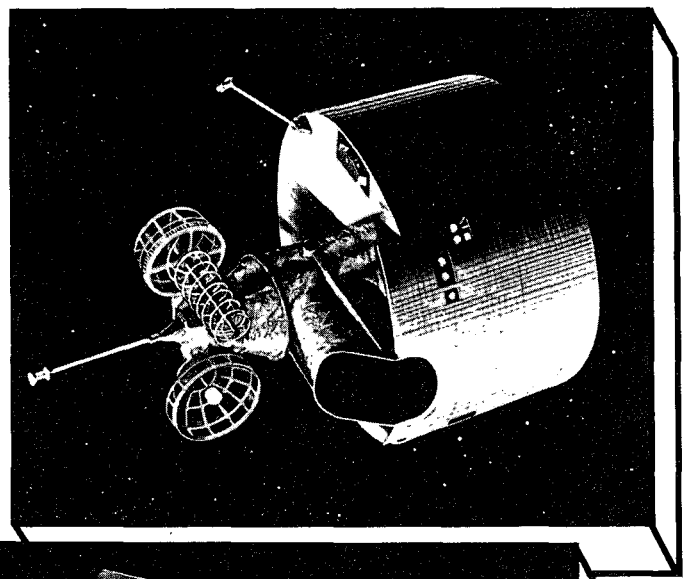
As a business, forecasting is older than the US government, though the state of 18th-century science makes the connection between early forecasting and modern meteorology mostly historical. Benjamin Franklin is perhaps the best known of the early weathermen. His forecasts in *Poor Richard's Almanac* were crude but undoubtedly provided a valuable service to immigrants who were totally unfamiliar with American weather patterns. Thomas Jefferson, too, worked to expand knowledge of weather phenomena. Jefferson was part of a group of people who voluntarily recorded and transferred local weather readings.

With the invention of the telegraph in 1844, early weather-data networks received their most important technological breakthrough. But even before then, profit-making businesses were engaged to sell weather information to shipping and agricultural customers. In 1870, however, Congress gave the Army Signal Corps the responsibility of providing weather information for the government. And according to Martin, the burgeoning private weather business seemed to stall at about the same time that Congress started funding the Signal Corps's activities.

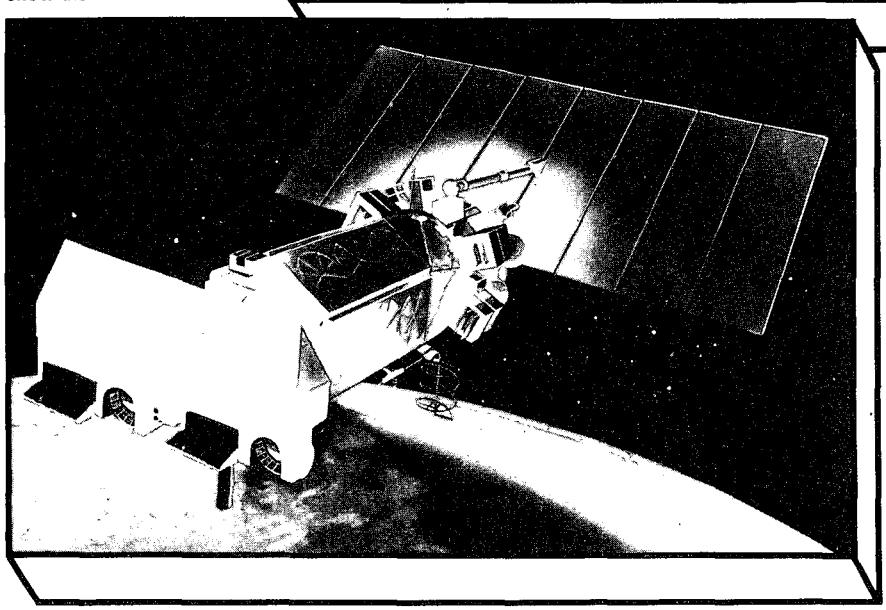
The task of forecasting was subsequently shifted to the Department of Agriculture, then to the Department of Commerce, where it still resides. Through its Weather Bureau, the government virtually monopolized the business until the late 1920s, when the demands of new businesses went beyond the scope of government forecasts. A firm was established in Hollywood, for example, to serve the film industry's need for accurate information to plan shooting schedules. Another firm provided weather data to airlines flying between San Francisco and Los Angeles. As the number of private firms grew during the '20s and '30s, the Weather Bureau handled their requests for data on a casual basis. There was no policy on this matter until 1940, when the secretary of Agriculture, Henry Wallace, decided one was needed.

Wallace chose Dr. Karl Compton, then president of the Massachusetts Institute of Technology, to chair a committee to

set policy concerning public access to government weather data; the other committee members were all government employees. In their report of April 1940, the committee recommended strict governmental control of access to the teletype service for all but a few favored firms not in competition with the Weather Bureau.



This National Weather Service geostationary operational satellite (GOES) is one of two that, at 30-minute intervals, take pictures of the Americas and the Atlantic and Pacific oceans.



Operated by the National Oceanographic and Atmospheric Administration, this Tiros-N satellite orbits the North Pole to take very-high-resolution pictures of Artic cloud cover and ice and snow distribution.

At the annual meeting of the American Meteorological Society (AMS) in 1946, Weather Bureau Chief F. W. Reichelderfer admitted that the bureau's withholding of data from the private sector was contrary to the principles of the free-market system. But he upheld the opinion that private firms should not be allowed to compete with government-provided services. The next year, the Weather Bureau started charging fees for specialized services, an activity made legal in 1935. At that time, fees were called "cost sharing." Before Congress, Reichelderfer explained that fees were desirable, because "if those who benefit bear some of the cost, you may be reasonably sure that they ask for the service because they need it and not because they get it free from the government."

It is important to clarify the role of fees in the post-war years. There were no charges for *raw data*, but the Weather Bureau aggressively solicited business and charged direct consumers of weather *forecasts* (generally, large firms). Private meteorologists protested the tax-subsidized competition. Several attempts to introduce legislation banning the Weather Bureau from supplying specialized services, however, were unsuccessful.

Private firms, however, continued to demonstrate their ability to provide competitive services. Consequently, some in government saw that there was less justification for a nationalized weather industry. So in May 1953, the Commerce Department formed a new Advisory Committee for Weather Services. The list of committee members—six private-sector meteorologists, one academic, and the executive secretary of the AMS—must have been a severe-storm warning to those in the Weather Bureau who wanted the old practices to continue.

The committee's recommendations, known as the George Report, were to limit the Weather Bureau's activities to general forecasts and areas where it was believed that private meteorologists could not provide service. Easier access to teletype and facsimile circuits also was recommended. In effect, the committee recommended limiting the bureau's specialized, charged-for services and expanding its "free" services (that is, the collection and dissemination of raw data). The Department of Commerce adopted the George Report, and its general thrust has remained in effect to the present.

The usual justification for government weather services is that no one else could do it. Weather forecasting is considered a "public good."

As economists and political scientists use the term, a public good is something that, once produced, is necessarily available to everyone, whether they pay for it or not. National defense is the classic example: if somebody provides an army, navy, and air force to protect a territory, everybody in that territory receives defense—whether or not he's paid for it. Economists generally conclude that if something has the attributes of a public good, it should be produced by government and financed by levying taxes. But *are* weather services that kind of animal?

Originally, it was thought that no aspect of weather services could be carried out competently by the private sector, but private firms have proved that a great many specialized services can be marketed to paying customers. But what about data collection, emergency services, and general forecasting?

No one seriously thinks that the private sector *can't* produce general daily forecasts. There are too many firms—like Accuweather—already producing that kind of information, and the media market is too developed to doubt that avenues of dissemination are available. The reasoning behind government provision of the kind of information used to decide whether or not to take an umbrella to work goes something like this: "Data collection is a public good, and it is the government's responsibility to provide emergency forecasts. Since a

Illustrations courtesy of NOAA

general forecast can be considered a by-product of the work necessary to keep track of potentially dangerous weather situations, the government might just as well give the taxpayers something for their money."

The problem with that thinking is that it ignores the misallocation of resources involved in government production. When a service is provided free, there is no real way to gauge people's demand for it or their willingness to allocate scarce resources to producing it.

A good example of such misallocation involves weather forecasts for commercial aviation. Accurate, up-to-date weather information makes it possible to plan the most efficient routings for commercial jetliners. That can make a large difference in airline fuel bills. Yet during the last decade of skyrocketing fuel prices, the accuracy of NWS/FAA aviation forecasts has not been improved at all. Large-scale forecasts are still issued only twice a day, yet weather systems can change dramatically in as little as six hours. According to NASA's Robert Steinberg, speaking at a 1981 symposium, poor routings due to coarse government forecasts could be costing airlines as much as $1 billion a year in wasted fuel.

The NWS and the FAA, however, have little incentive to spend the money needed to improve these forecasts, since they don't charge the airlines for them and, hence, couldn't increase prices to cover the costs. When asked in a telephone interview whether airlines would be willing to *pay* for more-useful forecasts, United Airlines' chief meteorologist Carl Knable replied, without hesitation, "Of course."

The logic used to justify government provision of general forecasts—that they are a by-product of emergency services—can be turned around. Since it takes the same basic tools to prepare both, it is hard to imagine that a company selling general forecasts would not be interested in warning its customers of severe weather, as well.

In fact, the real argument against emergency services being offered by private firms is not economic at all. It is legal. Most of the meteorologists I talked to take it for granted that only a government agency can handle the kind of liability problems that are inevitable when dealing with an inexact science like meteorology. The mantle of government is seen as a partial defense against negligence lawsuits.

The consumer may question whether that kind of protection is good for anybody to have. Private forecasting firms do carry liability insurance, and there is no logic preventing its extension to emergency services were private firms to enter this field. But would such insurance be so expensive as to constitute a significant barrier to entry in the field?

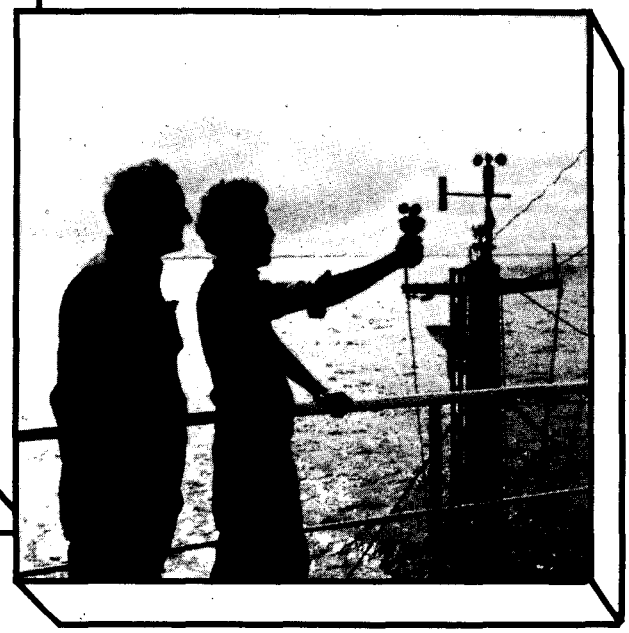
There is a quick-and-dirty method of disposing of the problem. Martin has suggested that emergency services be shifted from the NWS to the military, which already has the capability in most areas. (In fact, the Defense Department presently generates the data for the NWS's Hurricane Warning Service.) The plan makes sense if one accepts the military's true role as protecting the life and property of US citizens. It is unlikely that the military will relinquish their weather arms, anyway, so they might just as well put them to peace-time use.

There is still the question, though, whether data *collection* is a public good. Could anybody else do it if the government didn't?

Although nearly everyone benefits from weather forecasts, very few of us deal directly with the data collector, the NWS. That agency functions as a wholesaler, providing information to commercial organizations that retail it to the ultimate users. The fact that the government fails to charge for its valuable outputs doesn't mean that charging its customers—the airlines, shipping companies, agricultural enterprises, newspapers, broadcasters—is impossible. It simply reflects the NWS's nature as a bureaucracy imbued with a noncommercial mentality.

If a commercial entity were doing the data-collection job, it could continue to function as a data wholesaler but charge its retailing customers. In fact, of course, at least one commercial firm, Comsat, is eager to enter the data-collection business, so it's clear that commercial en-

Each morning, Oceanroutes analysts receive a briefing on current weather patterns over the oceans.



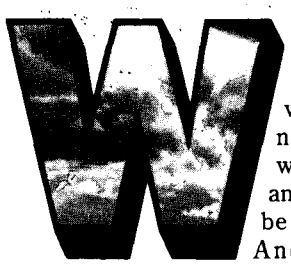
North Sea weather observations are among the forecasting services Oceanroutes provides its oil-producer clients.

Photographs courtesy of Oceanroutes, Inc.

tities *could* carry out this function. Clearly, then, weather data *collection* is not inherently a public good either.

At this point, critics are wont to raise another classic objection against free-market provision of basic goods—that data collection is a "natural monopoly." In other words, it would be a costly duplication to have two or more competing firms operating the satellites, ground stations, and volunteer networks needed to collect the raw data. And if a single profit-making company were allowed to operate, it would have to be regulated to prevent it from charging outrageous prices for the data that only it could provide.

This is the argument by which we came to have regulated monopolies providing telephone service, electricity, and so on. Increasingly, however, economists are challenging the premise of "costly duplication" (see "Two Utilities Are Better Than One," REASON, Oct. 1981). Moreover, the evidence is that even when a single firm ends up the sole seller in a market, any monopoly pricing cannot be maintained when competitors *can* enter the market with lower prices. The real danger is that, in fear of a natural monopoly, the government creates a most-unnatural monopoly—one that suffers regulation of its prices in exchange for a government guarantee that no competitors may poach on its turf.



What are the chances of privatizing the weather business? Who would be for it and who would be against it? And by what steps could we move in that direction?

Richard Hallgren, head of the NWS, clearly understands the peculiar position that his agency is in. He is conscious of the value of the information that his agency produces. Hallgren told me that he has nothing against the charging of fees to those who tap into the NWS network—except for the probability that revenues gained through user charges would then be subtracted from NWS funding, leaving the agency holding the tab for the bookkeeping costs and without the capital needed to improve the existing technology.

"But if you were a federally chartered corporation like Comsat, you could charge what the market would bear," I reminded him. His response was simply, "It's a Catch-22 situation, isn't it?"

From the point of view of the taxpayer, user charges to companies that use NWS data would be an improvement in terms of the tax bill, but it would do little to rescue the NWS from its difficulties as it struggles to operate as a government agency. The NACOA report estimated that at least $1 billion needs to be invested in improvements to the system over this decade. The only real solution is to free weather service from the nonprofit status of a government agency.

In the 1960s, Comsat took a taxpayer burden, communications satellites, and turned it into an extremely profitable business, improving service in the deal. The National Weather Service is a potential Comsat.

When I pressed Hallgren about the possibility of chartering the government's weather arms, kit and caboodle, as a corporation, he said, "The private meteorologists would scream bloody murder if they had to compete with us."

"But would you like to see 'the National Weather Service' competing in the free market?" I asked.

"I could never support that kind of move," he insisted.

"But what if it happened?" I pestered him.

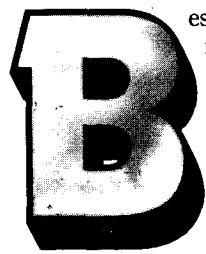
He smiled at me then and said, "I'd love to run the thing."

Another possibility for the role of data collector is Comsat itself. The company already has plans for marketing specialized weather data from the satellites and has bought up Environmental Research and Technology, a company with meteorologists (Comsat is loath to say how many) working in weather-related areas.

Fritz Snideman of Oceanroutes was not excited by such a possibility, whether it were Comsat or some other firm. He probably speaks for most private meteorologists, who fear that such a firm would be in a uniquely favorable position to provide all sorts of weather information if it owned the raw data. Yet there is no guarantee that Comsat, for example, could best all the competition.

It shouldn't be too surprising, though, to find that private meteorologists are not enthusiastic about privatizing data collection. They now get the data essentially for free. Private weather firms are in the enviable position of having the raw material of their manufacturing process provided at taxpayers' expense. As far back as 1940, the Compton Report warned that the "private sector should not be allowed to acquire a vested interest in the Government's weather data, the gathering of which is financed by the taxpayer."

The electronic revolution is changing the world, however, and private users of the government's weather data may find themselves paying for more and more information from alternative sources. Completely new methods of analyses are being developed—outside the government. As part of its Landsat follow-on, Comsat envisions launching a stereo satellite imaging system that will relay three-dimensional information to the company's data banks. According to its package deal for acquiring the government satellite system, the NWS would pay for the data and then distribute it. NWS policy, of course, is to give it away for the cost of hook-up. Still, Comsat expects to sell the same data to private firms who need updated information faster than the NWS service. Ironically, Oceanroutes is one of the firms that has expressed an interest in buying the data from Comsat.



Besides the obvious vested interests of private weather firms that don't want to have to pay for what they now get free, is anyone making good arguments against privatization? What we might call the noncommercial Weather Establishment is represented by the National Advisory Committee on Oceans and Atmosphere. NACOA's July 1982 report considers—but rejects—both user fees and private operation of the weather system.

The report jumps through some incredible hoops attempting to show that user fees aren't practical. Charging broadcasters, says the report, would be "counterproductive," because in exchange for getting the data for free, the media provide a valuable public service by disseminating the forecasts to the public at no cost to the government. The idea, apparently, is that it just wouldn't do to risk offending the media moguls by asking them to pay!

In fact, of course, media weather reporting is an extremely lucrative business. The broadcast media spend upwards of $1.5 billion a year to present weather forecasts. This is not done "as a public service"—it generates advertising revenue. The Weather Channel is a 24-hour cable service begun in May 1982 by John Coleman, weather forecaster on *Good Morning America*. It is completely advertiser-supported. I asked Susan Storey at the Weather Channel whether, if government's weather services were privatized, having to pay for their raw

data would change the firm's financial picture. "We would anticipate that it would not be a burden," she said. "It wouldn't affect us at all." Not much need for a subsidy *there*!

And those users who need specialized data—aviation, agriculture, maritime users, and private forecasters? The NACOA report's tortuous logic continues.

How could we compromise the *safety of the public* by making airlines pay for weather forecasts? The report is seriously suggesting that some of them might just decide to forget about checking the weather before taking off in their $60-million 747s!

And "because agriculture is so central to the national welfare, we regard it as frivolous to propose charging users." Yet in the very same report, the observant reader will note an estimate of the annual savings to agriculture from the government's weather information: $750 million. Also in the report, an estimate of the cost of providing that information: $1.2 million. Yet the taxpayers are to swallow yet another farm subsidy.

And how could we expect merchant shippers to continue sending in about 2,000 voluntary observations per month if we charged them for forecasts? Never mind that the largest participant in the analogous voluntary airline reporting program—United—pulled out last September. The value of the free information it was getting back from the government didn't justify the cost of making the radio calls. So much for NACOA's much-vaunted *quid pro quo* argument.

By the time NACOA gets around to the private weather firms, it admits that "some form of user fees would seem to be appropriate." But it concludes that the small volume just wouldn't justify the cost of administering the fees.

The committee's treatment of private-sector operation of the weather service is just as superficial. The case for a fully private weather system was presented in testimony before the committee by Steven Hanke when he was a senior economist on the President's Council of Economic Advisers.

The NWS, concedes the report, *is* faced with a real funding problem—which privatization could solve, by putting weather service into the marketplace—but the report finds "many disadvantages" as well. It is doubtful that *quid pro quo* arrangements could be maintained under private enterprise. National security considerations present "difficult obstacles." Only the federal government could "deal effectively with private citizens, private corporations, and foreign governments." And besides, says NACOA, we *asked* the private weather firms, and *they* all said that data collection and basic forecasting "should remain the responsibility of the Federal government." And this was convincing, of course.

The NACOA report raised the matter of dealing with foreign governments. This issue arises because of US membership in the World Meteorological Organization. Started nearly a century ago as the International Meteorological Organization, WMO arranges the free flow of data among virtually all nations. Even during the Bay of Pigs invasion, the weather bureaus of Cuba and the United States carried on their data flow with no interruption. During the long period when Communist China was an official uncountry, the meteorologists in both governments managed to trade information through third parties.

Yet the claim that only the government is capable of interacting with the WMO is contrived. International meteorologists would not reject weather data simply because it was not produced by a government; global weather data are too important.

There's an obvious precedent with Intelsat. Every member of this international communications-satellite entity is a government agency—except for the US member, which is Comsat. The same situation obtains with Inmarsat, the organization that operates maritime communications satellites.

There is nothing implicitly anti-market about trading for information, and there would be great incentive for businesses to supply data to the WMO in return for international weather data. Trading US data for the rest of the world's data is a nice deal. It is easy to imagine that the cost of transferring US data, paid for on the market, could be recouped by selling WMO's international data to other firms.

The "national security" issue is also a red herring. Defense Department needs and priority during defense-related emergencies can be provided for by contract with any firms operating weather satellites or other weather facilities. Even today the Navy obtains maritime UHF radio communication services via Comsat's Marisat satellites. Comsat maintains required physical security at its ground stations in accordance with Navy requirements. Military bureaucracies nearly always prefer the status quo to the unknown, so it's not surprising that the Pentagon has voiced opposition to weather satellite privatization. But there are no valid reasons for it to do so.

Is anyone in government really *for* privatization? Apparently, only those watchdogs of the public purse, the General Accounting Office and the Office of Management and Budget. The GAO reiterated its support for real user charges on March 28, 1980:

> *Federal agencies provide goods, services, and privileges that benefit identifiable recipients. Charging for these benefits is equitable since it assumes that costs are borne by beneficiaries, rather than by taxpayers in general. Full cost pricing also ensures that products whose costs exceed their benefits will not be produced.*

OMB has enunciated basic federal government policy regarding the provision of goods and services for the executive branch's use. Its Circular A-76, first issued in 1966 and revised in 1976, provides that the executive branch shall rely on the private sector for its goods and services unless (a) there is no satisfactory source available, (b) military needs take precedence, or (c) the cost would be higher if privately produced. The Department of Commerce's announcement of the pending sale of Landsat and weather satellites reiterated the A-76 policy. And in his Economic Report to the Congress in February 1982, President Reagan stated flatly, "Federal Government action should be reserved for those needed functions that only the national Government can undertake."

Weather forecasting, clearly, is not something that only government can do. Even the part of it that may look like a natural monopoly—data collection—can be carried out by private enterprise. As a valuable resource, weather data ought to be bought and sold; that's the only way we can be sure that enough of it—and the right kind—will actually be produced and that the necessary resources will be invested.

Characteristic of government agencies, the National Weather Service has named an award to volunteers—the Thomas Jefferson Award—after one of the most important critics of government activity in economic enterprises. I think that Thomas Jefferson would be less than happy to be associated with the modern government weather monopoly. If the government really wanted to honor Jefferson, they would follow his advice When he said, "A wise and frugal government which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government." ◻

Patrick Cox is REASON*'s Spotlight writer and a frequent columnist for* USA Today. *This article is a project of the Reason Foundation Investigative Journalism Fund.*

Next Stop: SOLVENCY

The New York subways don't really need government subsidies—so says a little-noticed MTA study. And that means they really could be sold off.

BY PETER SAMUEL

Last year, New York City's transit system soaked up nearly a billion dollars in subsidies. About 90 percent of it went to the city's crumbling subways, covering almost half of the system's operating costs.

Why should city, state, and federal taxpayers be paying half the cost of transporting some 2.7 million passengers a day on New York City's subways? Why, indeed. Last year, New York University economist James Ramsey proposed that the subways be sold off to private investors, removing them from the hands of the quasi-governmental Metropolitan Transit Authority (MTA), which has found it politically impossible either to raise fares or to institute union-opposed cost-cutting measures. Advocates of the status quo counter that private firms couldn't possibly be interested in buying subway lines, because fares couldn't be raised enough to cover costs—ridership would decline so drastically that revenues would still fall short of costs.

This supposed inherent unprofitability of transit is the major impediment to serious discussion of selling the subways to commercial investors. In a previous article in REASON ("Unload the Subways," May 1982), in which I investigated the MTA's finances and reported on the proposal to sell the subways to private operators, I addressed this problem. Subway demand, I suggested, would in fact support sizable fare

Photograph by Barbara Alper/Picture Group

hikes. That was an educated guess.

The results of a new study, then, are quite interesting. In fact, concludes the study, the demand for subway service in New York City is such that fare increases would reduce ridership only very slightly. Moreover, even if fares were raised substantially, total fare-box revenues would still rise. The bottom line is that the city's subways could be supported by their users instead of by a multitude of taxpayers.

I ferreted this information from a study commissioned by the MTA itself. In preparation for two bond issues last fall worth $385 million—a first step in a five-year, multibillion-dollar capital-improvement plan—the MTA was looking to provide potential bond buyers an answer to this question: In the event of severe subsidy cutbacks, could fare-box revenues keep the system solvent? The MTA commissioned Charles River Associates, a Boston-based transportation-consulting firm, to find out just how many riders would stop using the system as fares increased to cover costs.

The firm delivered its conclusions to the MTA on October 1, 1982, in a report entitled "New York City Transit Authority Revenue Feasibility Study: Economic Analyses and Projections." Although copies of the report are obtainable from the MTA's Public Affairs Department, the MTA has not publicized the results outside the bond community, nor have New York media picked up on and reported to taxpayers the interesting implications of those results.

To do the study, Charles River Associates (CRA) formulated an economic model of the New York City system's ridership. CRA used what seem to be cautious forecasts of population, employment, and travel patterns in the New York area. They then estimated subway riders' responsiveness to changes in fares and in the frequency of train failures. (The study assumes that the planned $5.5-billion capital-improvement program is implemented, increasing the subways' reliability.)

The consulting firm also developed a model of the system's finances and then considered four different scenarios for covering operating expenses (including interest on the planned bond issue) over the next 10 years. In Case I, some subsidies are held to their present dollar level, so that total subsidies rise from just under $1 billion in 1983 to $1.4 billion in 1992. Case II has subsidies rising with inflation, to a projected $1.6 billion in 1992. Case III maintains the present *ratio* of subsidy to overall operating costs (currently nearly 50-50); in this scenario, total subsidies rise to $2.2 billion in 1992. Case IV—the interesting case—hypothesizes the phasing out of "general operating subsidies," so that total subsidies stand at $0.7 billion in 1992.

The various subsidy scenarios in the study project different fare levels to cover remaining costs and, of course, come up with differing levels of ridership. Case III, in which subsidies grow to $2.2 billion, has the system serving 1.4 billion passengers a year at a fare of 82 cents in 1982 dollars. (The fare is now 75 cents.) That might be termed the Big Spender approach to transit. Case IV, which we might call the Stockmanite Scheme, requires cutbacks in subsidies and ends up with 1.3 billion passengers and a $1.41 fare. The other two cases are quite predictable in-between positions with lesser losses of ridership and more-moderate fare increases than in the Stockmanite Scheme.

What is most striking in the study is the relatively small passenger loss involved in even the most radical, Stockmanite scheme. Only 7.5 percent of passengers would choose not to use the subways when fares are raised in this scheme to take the place of the subsidies of the Big Spender scenario. It is this relatively small reaction of ridership to fare hikes that enables the MTA's consultants to say with such confidence that, if need be, the system can pay for itself from the fare-box. Typically, however, defenders of the status quo and apologists for the entrenched bureaucracies say that ridership losses will be so large in response to fare increases that there is no way deficits can be overcome.

Consumers' response to a price change is a technical economic concept called, in the jargon, "price elasticity of demand." For the New York subways, CRA found that the long-run fare elasticity of demand is -0.101. This means that for every percentage increase in the fare, there will be a 0.101 percent decrease in ridership. So a 20 percent increase, for example, in the fare can be expected to produce an ultimate 2.02 percent decrease in ridership.

How solid is that estimate? I asked Daniel Brand, a senior associate at CRA and primary author of the study. Brand is a well-known authority in the transportation industry and from 1973 to 1979 was chairman of the Passenger Travel Demand Forecasting Committee of the Transportation Research Board, based in Washington. "It's bulletproof," Brand claimed. No one has questioned it.

Besides, it is not an unexpected result. The CRA report cites "a small literature" on subway elasticity and notes that their -0.101 figure is well within the range of previous estimates. The studies go back as far as 1968 and find elasticities ranging from -0.09 to -0.132. (In a paper delivered at the 62nd Annual Meeting of the Transportation Research Board in January, researchers Robert Cervero and Gary Black cite a more extensive literature and note that ridership response to fare increases in large urban areas is slight because of the density of the population—traffic congestion and parking constraints make it difficult for transit riders to switch to automobiles.)

Furthermore, there was a recent real-life experiment in the effect of a substantial subway fare hike when the Chicago Transit Authority raised its fare from 60 cents in 1980 to 90 cents in July 1981. The result was a 3.2 percent ridership slippage, on a real fare increase—adjusted for inflation—of 29.4 percent. The fare elasticity in this case was -0.109 or -0.126, depending on what statistical formula is used.

These elasticities establish that the New York subways could move a long way toward self-support. Revenues could be raised relatively easily by increasing fares toward cost, thus making it possible to reduce substantially the present massive subsidization of subway users by city, state, and federal taxpayers. The MTA, however, shows no intention of moving in this direction. It commissioned a study, used it to assuage the bond community, and then filed it.

This is striking evidence of the need to replace the MTA management of New York City's subways with commercial management. It's not that particularly incompetent people staff the MTA. But the MTA, being a government entity, is subject to a whole constellation of political pressures, constraints, temptations, and limitations, such that even geniuses and the wisest of men will end up in a mess.

Is private—completely unsubsidized—operation of the subways really feasible? After all, even the Stockmanite Scheme in the study by Charles River Associates falls short of fully testing the unsubsidized financial viability of the subway system.

For instance, Case IV provides for the city's continuation of some $300 million—nearly $600 million by 1992—of rather mysteriously termed "service reimbursements" to the MTA. Around half of these reflect the costs of the Transit Police. Cops are indeed needed to keep the peace on the subways—but shouldn't they be paid by the operator of the subway system and ultimately by the users? The CRA study, however, assumes these personnel will be paid by the city. The re-

mainder are described as services of "a capital nature" provided by MTA personnel. Since the city owns the tracks, tunnels, and stations, the city reimburses the MTA for work performed on these facilities by MTA employees.

CRA's Case IV also assumes the city's continuation of about $96 million a year in "fare reimbursements" to the MTA. This is a welfare program by which the city subsidizes the MTA's discounted fares for the elderly and schoolchildren. The study also provides for transfer to the MTA of "operating surplus" from tolls collected on certain city bridges and tunnels (though these subsidies are projected to decline sharply, from $109.5 million in 1983 to $1.2 million in 1982).

Finally, in assuming that the capital-improvement plan will be implemented as proposed by the MTA, the "unsubsidized" scenario set out in the study builds in yet more subsidies. The MTA's capital plan is for a full 57 percent of the funds for the project to come from federal, state, and city grants—subsidies, that is.

Consider, however, the fact that the CRA study assumes no major reforms of the system whatsoever. Cost-saving measures would certainly be expected from private operators, although history shows that they are extremely unlikely under government operators.

The study does not assume, for instance, any increase in labor productivity. Yet as I found last year when I first investigated the New York subway story, private transit operators can get workers at half the wages government pays its employees. Moreover, a wide array of labor-saving measures that the politically pressured MTA won't touch with a 10-foot pole could be implemented by private operators. Given that labor is by far the largest component of transit operating costs, the savings in this category alone, under private operation, would be considerable.

Also not assumed in the Charles River study are any service cutbacks. Figured into the costs of maintaining, upgrading, and operating the subways are costs incurred by operating lightly traveled routes and little-patronized stations—precisely those unprofitable elements that commercial management would eliminate. And again, the savings would be great.

Automated fare equipment—such as stored-value cards, which record place of entry and exit—would enable an operator to set more-rational pricing policies on the subways and, in some cases, integrate subway service with commuter rail service. Distance-related fares could replace the flat fare. This would bring charges closer to costs and would attract some short-distance travelers, who at present are deterred by the relatively high fare. Moreover, a rational fare system would allow off-peak discounts, selective rates on little-traveled routes, and higher rates for express service—mechanisms by which an operator both reflects costs in prices and improves service.

Early this year, the MTA in fact acknowledged the case for doing away with tokens on the subways. Chairman Richard Ravitch suggested that an automated system would eventually have to replace tokens, and he alluded to Washington's stored-value magnetic-strip cards. At present, around 20 percent of subway revenues goes for the costs of token sales, an absurdly high sales expense. (And it is not as if the token sales staff do anything about fare-evaders, who, right in front of the salespeople's eyes, go in through exit slamgates or jump turnstiles. The MTA currently estimates losses from evasion at $50 million a year, but casual observation suggests it may be more.) Any actual move to replace personnel with automated equipment, however, is sure to meet with transit-union resistance. And history suggests that such resistance is not likely to be for naught.

A great variety of potential improvements in the operation of the New York subway system were discussed recently in an excellent "Transit Issue" of the journal *New York Affairs* (Vol. 7, No. 3, 1982). David Schoenbrod of New York University's Urban Research Center points out the complete lack of responsiveness and flexibility of the system under present institutional arrangements: "The (New York) region lacks the institutional means to deal intelligently with the question of how and where the system should shrink and grow. No official document lays out the choices and recommends a course of action.... the political process has shown itself prompt to obstruct the MTA's taking unpopular actions but loath to tell the MTA what to do instead." The consequence, he notes, is that the subway system "is overlarge and rundown."

Boris Pushkarev, head of research at the New York Regional Plan Association and another contributor to the issue, criticizes most effectively the MTA's now-exclusive preoccupation with renovation and management of the existing system (witness the current capital-improvement program). This preoccupation is precluding it from adapting the system to radically changing population patterns, employment distribution, and travel demands.

The past few years' revival of Manhattan as an employment center—employment grew right through the recent recession, during which Manhattan experienced a boom in office and hotel construction—offers a splendid opportunity for the subway system to gain new customers. The Second Avenue subway rotting half-built under the east side of Manhattan could be completed and run profitably. Certainly the overloading of the east side's only subway, the Lexington Avenue IRT, suggests there is room for a Second Avenue line.

The 63rd Street tunnel complex under the East River could be profitably connected to lines in Queens, which is by far the largest generator of subway commuters. Improvements in service where demand is presently not catered to could be accompanied by reductions in service where population has declined (the Bronx and Brooklyn).

Pushkarev, a long-time follower of the subway situation, estimates that there is demand for 17 miles of new subway—a Second Avenue line being the obvious portion of that—and 20 miles of new routes on existing or unused railroad rights of way. He also suggests the closure and demolition of 26 miles of elevated tracks. Also on Pushkarev's hit list are some 30 or so stations throughout the system that are used by fewer than 1,000 passengers a day, creating quite unwarranted costs in token sales and security staff and imposing delays on other travelers.

Indeed, the subways' speed is an item of much dissatisfaction among users. Though the trains can—and *sometimes* do—run at 60 mph, the overall system speed is only 18 mph. Pushkarev suggests that closing every second station on some portions of the system—some stations are spaced less than a half-mile apart even in residential areas, though spacing of nine-tenths of a mile is quite acceptable to users—could both improve service for riders and reduce costs. Faster service enables the same train and crew to perform more trips per day, thus increasing productivity. Pushkarev estimates a 10 percent speed increase reduces costs by 2.2 percent.

There are other opportunities, too, suggests Pushkarev, by which costs could be cut, some requiring capital investment. One example: Presently, most subway trains are driven by an engineer stationed in a cab on the right side of the lead car. But station platforms may be on either side of the train. So when a train draws up to a left-side platform, the engineer cannot see the platform. There-

(Continued on p. 54)

BALANC ACT

WHEN RICHARD NIXON declared in 1973 that, to cope with a growing budget deficit, he would impound funds appropriated by Congress, the screams and howls from the elected representatives of the people could be heard throughout the land. Indeed, it almost seemed like a replay of history: Congress, not the executive, shall hold the power of the purse.

Where have we heard this cry before? Echoes of King John submitting to the barons at Runnymede, the over-

Illustration by Everett Peck

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Is a constitutional amendment the way to limit runaway taxing and spending?

By Joe Cobb

throw of Charles I by Cromwell, and the Boston Tea Party sound familiar. Yet, for what may have been the first time, the "power of the purse" was invoked to force the executive to spend funds that had *not* been collected by a duly voted tax bill.

To those historians who may have noted the irony—and they were surely few—it signaled a major turning point in the history of the American Republic and perhaps for democratic government itself. The battle cry has changed from "No Taxation Without Representation" to "Save Our Subsidies"! The legislative power has passed from tax *payers* to tax *receivers*.

Why is the current debate over a constitutional amendment to require a balanced budget so heated? The reason is that the economic life of every American will be touched by the outcome, with some gaining and others losing. The principles at stake may not be as clear as with issues like slavery, women's suffrage, or even the War Powers Act, but the fundamental framework of fiscal policy—and, according to some analysts, even monetary policy—is at issue.

The proposed amendment itself seems innocent enough. Senate Joint Resolution 5, and its companion bill in the House of Representatives, provide that Congress must approve any deficit spending by a margin of 60 percent. Moreover, members must vote on the record—not by one of those famous unrecorded voice votes that are always used for congressional pay raises and banking-law changes. The second section of the proposal requires that tax increases receive a majority vote of the full membership of each house of Congress, not just a majority of the ones who show up to vote.

Given the heat this idea of a constitutional amendment has generated, we have to ask, Is that all? Where is the iron-clad language that would force major cuts in spending? Where is the "irrational" economic theory that we are told should not be enshrined in our fundamental law? Where are the teeth that will eat widows and orphans alive? Indeed, from the perspective of one who knows the benefits of cutting spending, the proposal seems quite mild.

Air Conditioning! Guns! Butter!

ONCE UPON A TIME, Congress would vote to raise or lower import duties and would appropriate money for the army, navy, post offices, and public works like roads, canals, and harbors. And that was about it. Because Washington is such a miserable, hot place in the summer, Congress would meet in the winter and get out of town quickly.

The income tax, FDR's New Deal, the Second World War, and the invention of air conditioning changed all that. Our government has become a year-round passion, and the renovation of the old city is based on a growing demand for office space by corporations and law firms to set up lobbying offices. *Democracy* has come to mean that every social class and interest group has an agency or lobby in Washington to get its "fair share" of the public pie. Transfer payments to individuals and local governments, the amounts determined by automatic formula, now constitute over half of the federal budget. Interest on the national debt takes another 13 percent.

Veterans benefits, Social Security, and agricultural price supports were the first great "entitlement" programs. Criteria were established by Congress for people who would be entitled to benefits, as a matter of right. Thus a new theory of human rights was popularized—"to each according to need." In Washington, this is called equity (in contrast to the classical formula for equity: Thou shalt not steal). Most of the current $800-billion-a-year federal government spending is passive—those entitled simply come to the public granary and take their share. And this $800 billion doesn't even include loan guarantees, the unfunded liability of pensions, and the contingent liabilities of the Federal Deposit Insurance Corporation, the Employee Retirement Income Security Act, the International Monetary Fund, etc., etc., etc.

Frédéric Bastiat wrote his classic, *The Law*, over a hundred years ago, but his central point well describes our dilemma today: the state is that great fiction by which everyone attempts to live at the expense of everyone else. Any particular program, whether large or small, tends to benefit an identifiable group of people—and it is easier to organize a special-interest group to lobby Congress than it is to organize a general-interest group to seek repeal of subsidies and privileges.

A brief examination of the political role of milk producers or maritime unions is instructive. These industries maintain a very high level of political campaign contributions. Not surprisingly, they also receive significant subsidies from the Treasury as well as restrictions on competition that further enhance their wealth. Yet, every other taxpayer and consumer in the United States loses only a few dollars per year to these legalized brigands. What may be a minor annoyance, or even an invisible cost, to millions of people is a large pot of gold to those working night and day in Washington to defend their positions.

The most vivid image of this problem is the analogy offered by James Dale Davidson, of the National Taxpayers Union. Assume you selected 435 people off the street and gave them each an American Express credit card with a single, common account number. Assume each of them would be responsible for 1/435th of the monthly bill, but anything the individual could buy would be his or hers to keep. Obviously, the system of incentives is skewed at the margin in favor of greater and greater levels of communal spending.

The central logic of an amendment to the Constitution to require a balanced budget and limitations on taxes is to apply a tourniquet to stop the bleeding. At the present time there is no single point in the budget process at which members of Congress must account for the big picture. There is no need at

present to rank priorities in the budget among, for example, an item of defense spending, a new educational program, or a subsidy for the arts. Congress simply treats all programs as equally attractive and funds them year after year. Contrast this to a household or business budget, which by its very nature ranks items by priority and identifies the marginal ones that must be deferred or eliminated..

For the past five years, Congress has not actually adopted a budget for the United States. The agencies in Washington, the military, and the entitlement programs simply carry on with "continuing resolutions." There is no pretense of management or long-term planning nor careful allocation of scarce resources. Indeed, money for the federal government is not a "scarce resource." US Treasury bonds and T-bills are just about the most popular investments in today's risky international capital market. Even if things become really tight for the Treasury, there is a well-known, secretive agency (the Federal Reserve, of course) to supply the necessary funds via "monetary policy."

Europeans do not understand the American fiscal process. In a parliamentary system such as Britain's, the government's announced budget includes a formula for retroactive taxes on individual and business incomes from the previous year, and it proposes a spending plan that is not typically open to amendments. Party discipline is invoked, and either the budget is adopted or the government falls and new elections are called. Government budgeting in the United States, however, has always been a piecemeal process: before 1921 there was not even such a thing as a fiscal year. But then, deficit spending was also unusual.

No one argues against the idea of some fiscal discipline—at least not in public, and not explicitly. The controversy is over the method by which to impose it. Should it be a constitutional amendment—or a law adopted by Congress? It must be noted, however, that the more Congress tries to deal with the problem by statute, the worse the problem gets. The Budget Impoundment and Control Act of 1974 (the response of Congress to President Nixon's challenge in 1973) has completely failed. The national debt has tripled, and the budget has gotten deeper and deeper in the red each year.

The 27th Amendment?

SECTION 1. Prior to each fiscal year, the Congress shall adopt a statement of receipts and outlays for that year in which total outlays are not greater than total receipts. The Congress may amend such statement provided revised outlays are no greater than revised receipts. Whenever three-fifths of the whole number of both Houses shall deem it necessary, Congress in such statement may provide for a specific excess of outlays over receipts by a vote directed solely to that subject. The Congress and the President shall, pursuant to legislation or through exercise of their powers under the first and second articles, ensure that actual outlays do not exceed the outlays set forth in such statement.

SECTION 2. Total receipts for any fiscal year set forth in the statement adopted pursuant to this article shall not increase by a rate greater than the rate of increase in national income in the year or years ending not less than six months nor more than twelve months before such fiscal year, unless a majority of the whole number of both Houses of Congress shall have passed a bill directed solely to approving specific additional receipts and such bill has become law.

SECTION 3. The Congress may waive the provisions of this article for any fiscal year in which a declaration of war is in effect.

SECTION 4. Total receipts shall include all receipts of the United States except those derived from borrowing and total outlays shall include all outlays of the United States except those for repayment of debt principal.

SECTION 5. This article shall take effect for the second fiscal year beginning after its ratification.

SECTION 6. The Congress shall enforce and implement this article by appropriate legislation.

THREATENING THE KEYNESIAN EDIFICE

ONE OF THE PRIMARY ARGUMENTS against the proposed balanced-budget and tax-limitation amendment is the claim that we should not enshrine "an economic theory" in the basic law of the land. Of course, in several places the US Constitution already codifies economic precepts: the regulation of interstate commerce is "enshrined" in Article I, Section 8, as is the power of Congress to borrow money. The anti-slavery 13th Amendment is nothing if not an economic law. And what about the power of Congress to coin money and regulate its value?

The best argument against writing economic theory into the Constitution is the 16th Amendment. The income-tax amendment gave Congress the power to tax "income" but did not define the term. Economists and laymen alike thought it would be obvious. Yet, lawyers and accountants over the years, aided by Congress, have produced millions of pages of analysis, and the term is still not well defined. This perpetual public-works project is known as the regulations and interpretations of the income-tax code, which sustains the CPA industry.

This is important to note, because the central detail of the tax-limitation part of the budget-balancing amendment, section 2, is something called "national income." Now, national income is an artificial number calculated by the Department of Commerce each year. Among its problems, it excludes all wealth and productive services created in the underground economy and counts, or double counts, all the waste and inefficiency of government itself.

The real issue about economic theory and the Constitution, however, is much more subtle. Public policy today is already dominated by an economic theory—an orthodoxy that is threatened by the proposed balanced-budget amendment. What might seem like mild language in Senate Joint Resolution 5 is as threatening to the Washington oligarchy as a denial of the divinity of Christ would be to the Vatican.

John Maynard Keynes once wrote that every practical man of affairs, who may believe himself completely immune from doctrinaire tendencies, is in truth an intellectual slave to some academic scribbler of the previous generation—an economist. A brilliant exposé of the modern orthodoxy is contained in James M. Buchanan and Richard E. Wagner's book, *Democracy in Deficit*:

The Bulging Budget

In billions of dollars, this is how the federal budget has grown over the last 15 years:

Fiscal Year*	Revenues	Outlays	Deficit (–) Surplus (+)
1969	$187.8	$184.6	$+ 3.2
1970	193.7	196.6	– 2.8
1971	188.4	211.4	– 23.0
1972	208.6	232.0	– 23.4
1973	232.2	247.0	– 14.8
1974	264.9	269.6	– 4.7
1975	281.0	326.1	– 45.2
1976	300.0	366.5	– 66.4
1976TQ	81.8	94.7	– 12.9
1977	355.6	400.5	– 45.0
1978	402.0	450.8	– 48.8
1979	465.9	493.7	– 27.8
1980	520.0	579.6	– 59.6
1981	599.3	657.2	– 57.9
1982	617.8	728.4	– 110.6
1983 (est.)	597.5	805.3	– 207.7
1984 (est.)	659.7	848.5	– 188.8

Note: Totals may not add due to rounding

**Through fiscal year 1976, the fiscal year was on a July 1-June 30 basis. Beginning October 1976 (fiscal year 1977), the fiscal year is on an October 1-September 30 basis. The period July 1, 1976, through September 30, 1976, is a separate fiscal period known as the transition quarter (1976 TQ in the table).*

Source: Research Reports *(Feb. 18, 1983), American Institute for Economic Research.*

In the year [1776] of the American Declaration of Independence, Adam Smith observed that "What is prudence in the conduct of every private family, can scarcely be folly in that of a great kingdom." Until the advent of the "Keynesian revolution" in the middle years of this century, the fiscal conduct of the American Republic was informed by this Smithian principle of fiscal responsibility. . . . The message of Keynesianism might be summarized as follows: What is folly in the conduct of a private family may be prudence in the conduct of the affairs of a great nation.

The modern view is that government must at all times "hang loose" to stimulate, regulate, or plan the "free-market" economy in the public interest.

Alice Rivlin, head of the Congressional Budget Office, testified before the House Judiciary Committee the day after the Senate voted 69 to 31 last year in favor of the balanced-budget amendment. Speaking, of course, as an objective and impartial scientist, she said the proposed amendment could be "disastrous" because the economy is dependent on government spending—that is, deficit spending.

"The amount of reduced outlays or increased taxes called for by the amendment could endanger the economic recovery and create widespread dislocations if the amendment is implemented at an early date" was her statement to the House committee, cited in the *Washington Post* the following day. The newspaper, known for its opposition to the amendment, went on to say: "Rivlin's testimony before the subcommittee [offered] the first detailed estimate of what Congress would have to do if an amendment were passed and ratified by the necessary 38 states before October, 1983, and its terms put into effect in time for the 1985 fiscal year." She forecast the 1985 deficit at $178 billion.

The key to understanding the debate over the proposed constitutional amendment is not the economic theory of classical fiscal policy. Nor is it the Keynesian idea of deficits and surpluses as automatic stabilizers. The underlying issue is the role of government in managing the economy. If you believe the government "must" play a role in stimulating, stabilizing, or reindustrializing the nation's competitive market system, the proposed balanced-budget constitutional amendment is about as welcome as an atheist at an Easter worship service.

On the other hand, if you believe the government's central economic planners are incompetent—infected with what Nobel laureate F. A. Hayek has called "the pretense of knowledge"—the amendment is just a procedure for moving the debate from behind closed doors and putting it on the floor of Congress. The amendment, after all, does not actually limit federal spending nor require a balanced budget. All it does is establish a presumption in favor of that norm and require the honorable representatives of the people to go on record whenever they believe they must increase taxes or the public debt. Yet, this scares the pants off some people!

Taking the Convention Route

MOST OF THE DISCUSSION of the balanced-budget amendment treats it like a sudden slamming of the brakes on a great locomotive, the federal budget, throwing all the passengers on the social railroad into the aisles. The mere fact that such an amendment could be ratified by 38 states, however, ought to suggest that perhaps a transformation would overtake Congress, too.

Between now and 1985 or 1990, a new generation of representatives might take over. This prospect is what frightens Tip O'Neill and the Democratic Party leadership—particularly the idea that just having the proposed amendment out on the table, moving from one state legislature to the next, would precipitate such an electoral transformation.

Public opinion polls in the past three years have consistently demonstrated a strong public attitude in favor of an amendment to the Constitution requiring balanced budgets. Gallup, Harris, Roper, NYT/CBS, AP/NBC—all the polls—have found support ranging from 63 to 75 percent and opposition ranging from 13 to 29 percent. This level of support significantly exceeds that cited in favor of the Equal Rights Amendment, which Congress first sent to the states for ratification in 1972 and bent over backwards to support again in 1979.

Since 1975, 31 state legislatures have adopted resolutions calling upon Congress to submit a balanced-budget amendment for state ratification or to call a limited constitutional convention to draft such an amendment. The action of the Alaska legislature in 1982 is credited with stimulating Congress to vote on the issue, which received the necessary two-thirds majority in the Senate but failed to do so in the House (although it did receive a majority, 236-187).

James Dale Davidson of the National Taxpayers Union is a strong advocate of the constitutional convention route. He points out that we might expect a convention, summoned because Congress itself had failed to act, to draft a balanced-budget amendment with more teeth in it than the one Congress itself has proposed. Moreover, unless Congress becomes worried about this possibility, it will have no incentive to act.

The procedures in the House of Representatives in particular to prevent the measure from coming up for a vote are formidable.

Article V of the Constitution stipulates that Congress shall call a constitutional convention when two-thirds of the states request one. At this point, three additional state legislatures would have to adopt a resolution. Nine legislatures have in recent years passed such a resolution in one house but not both: California, Hawaii, Kentucky, Missouri, Montana, Ohio, Rhode Island, Washington, and West Virginia. In addition, four states have adopted resolutions calling upon Congress to submit a balanced-budget amendment for state ratification. It is not a remote prospect that the necessary number of states will call for a convention this year, particularly since the vote in the House that killed the measure in the 97th Congress was so narrow.

The idea of a new constitutional convention is controversial in its own right, because it seems like such a drastic move. The last time a constitutional convention met was in 1787, to replace the Articles of Confederation with our present Constitution. Opponents have charged that a new convention might, for example, repeal the Bill of Rights or come up with some other wild ideas. The reasonable answer to this worry is, So what? *Nothing proposed by such a convention could actually amend the constitution without formal ratification by 38 states.*

It has been suggested that, to allay fears about a "runaway convention," Congress limit it to considering *only* a balanced-budget amendment. In response to questions about the legality of such a limitation, the American Bar Association appointed a study group, which concluded: "Congress has the power to establish procedures limiting a convention to the subject matter which is stated in the applications received from the state legislatures."

Former Senator Sam Ervin, who was chairman of the Senate Judiciary Committee during Watergate, has blasted the opponents of a constitutional convention. "The fear of a runaway convention," he declared, "is just a nonexistent Constitutional ghost conjured up by people who are opposed to balancing the budget."

TAX AND TAX, SPEND AND SPEND

POLITICAL COLUMNIST GEORGE WILL is fond of annoying his conservative followers some of the time, so last year he came up with the slogan, "America is radically undertaxed." Congress is clearly unable to cut spending, he reasoned, so the budget deficit must be the result of taxes that are too low. Will's analysis is important to the whole issue of a balanced-budget and tax-limitation amendment, because it tells us the proposal can cut two ways. Politicians don't like to increase taxes, but they do it from time to time.

Would the proposed amendment make it *easier* to increase taxes? Supporters of the amendment have argued that it would make it easier for Congress to say no to petitions for increased spending, but this is a relative cost. It might become part of the constitutional imperative for Congress to move boldly along the path of least resistance, instead of drifting there as it does today. Sen. Robert Dole (R-Kan.) had little trouble getting Congress to enact the massive 1982 tax increase, because the deficit seemed too large. Would the proposed amendment make this kind of annual tax increase habitual?

The mechanism of the balanced-budget and tax-limitation amendment is the "super majority" required to adopt either deficit budgets or tax increases. In fact, however, the amendment requires only 60 percent approval for a deficit and 51 percent for a tax increase. To be sure, it would also force the spend-more, tax-more members of Congess to stand up and be counted, but Senator Dole had no trouble counting them in August 1982. Even President Reagan was stampeded by the "deficit" bogeyman into reversing his 1980 campaign promise of tax *decreases*.

It is very fashionable these days to say that a large budget deficit is the cause of all sorts of economic problems, but a careful examination of recent history doesn't bear this out. There is actually no direct correlation between government budget deficits and either high interest rates or inflation. Of course, there might be an indirect relationship—political pressures to finance deficits by monetary expansion—but a simple statute reforming the Federal Reserve System could fix that. The depressing effects of tax increases on economic activity, by contrast, are very real and measurable. If the proposed balanced-budget amendment becomes an easy justification in the future to raise taxes to meet automatic, cost-of-living-adjusted entitlement spending, it will become another constitutional curse like the 16th Amendment.

All things considered, the most interesting issue is why the proposed amendment is so controversial. Very few of the participants in the debate have raised any substantial objections to the amendment (the Keynesian "economic theory" issue is deeply buried in assumptions, rather than being argued directly). But since the amendment would not actually force a reduction in spending, its proponents have a burden of proof: Are they selling a sheep in wolf's clothing? Might it not be a more noble crusade, with ultimately more political impact, to elect to the Congress new legislators who reject the flawed philosophy of social "entitlements"?

Perhaps most to be feared is the possibility that the balanced-budget amendment would be adopted along with some version of the frequently proposed flat-rate income tax, for this combination would make income-tax increases much easier to justify and enact. Beware the appeal in public policy to "rationality" and "fairness"—these are applied by planners and managers in a context that tax-averse individuals should fear.

The new issue of "simplifying" the tax code and making it more "fair" has come along just at a time when government is confronted with the necessity of imposing limits on public-sector growth. These limits are defined by the taxpayers' level of anger and resistance and their willingness to vote against those who increase taxes or bring inflation. The requirement in the proposed amendment that tax increases receive a 51 percent majority in Congress is supposed to provide a focus for voter anger, but only a small minority of individualists would feel the anger if the myth were pervasive that taxes can be "fair" and "equal."

Jim Davidson's argument that a constitutional convention might be better than the current proposal, Senate Joint Resolution 5, is worth serious attention. It would certainly stimulate a deeper look at the philosophy of government and the revenue-transfer process than would a mere ratification by 38 states of something Congress wrote. George Will is correct when he points to the logical inconsistency between public attitudes toward spending and the methods of financing it. Only an intellectual revolution can force the consistency in the direction of *lower spending*, rather than "adequate revenues" for a balanced budget. ◻

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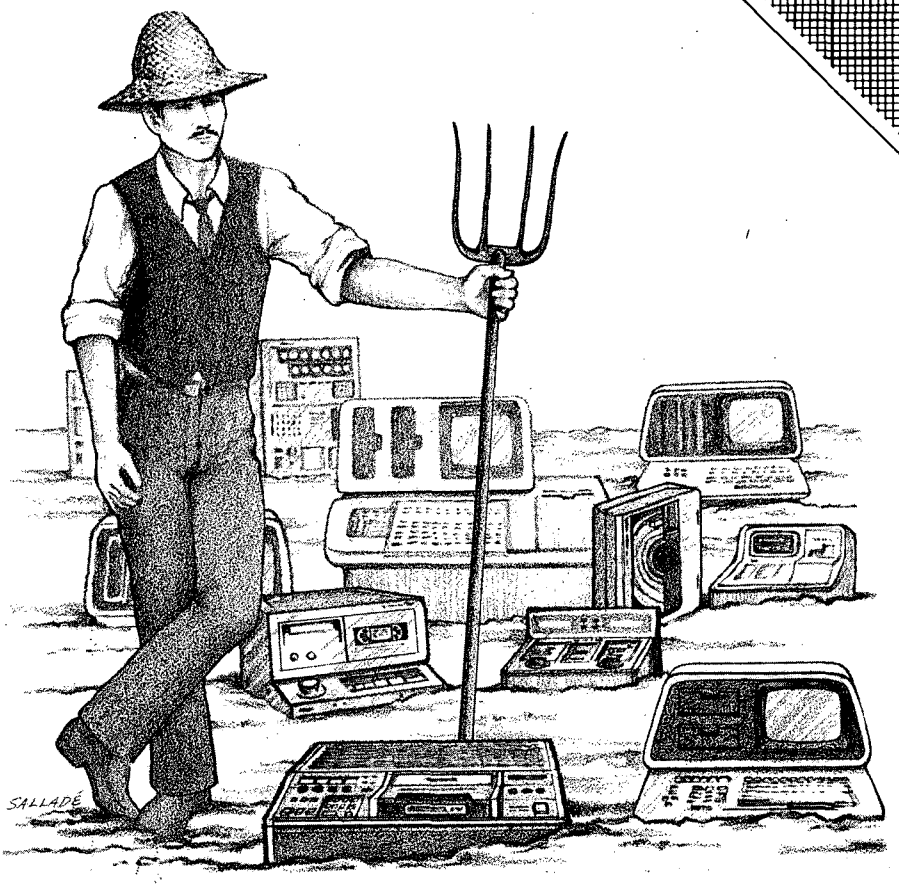
Reason's TENTH Annual Financial Section

JEROME SMITH

Make Hay With High-Tech



We are already six months into the boom year of 1983. And contrary to the consensus of official and establishment forecasters, it is not going to be a weak or moderate recovery.

This recovery was foreseeable as early as a year ago. The US composite index of leading economic indicators rose in eight of the last nine months of 1982. This pointed to a recovery beginning in late 1982 (in fact, the recovery began rather promptly in January 1983). And whenever the Federal Reserve Bank significantly alters the rate at which it pumps money into the US economy and sustains that change for six months or more, certain consequences invariably follow. Broadly speaking, this is the "business cycle."

In February, Mark Tier wrote in *World Money Analyst*: "The 1982-86 expansionary phase is beginning with record deficits, and record rates of money growth for the early stages of the cycle. Come 1984, inflation will be well into double-digits, and most of next year should see inflation in the range of 12-17 percent, and closer to 20 percent by the end of that year. This means that interest rates will range from 10-15 percent, and be approaching 18 percent by end-1984.

"...This scenario is nothing less than a recipe for hyperinflation. This is the second part of my reason for thinking that 1983 will be the best year (economically) for many years to come."

In October 1979, at a time of rampant inflation and soaring commodity prices, the Fed announced a change in "policy," saying that its open-market operations—buying and selling US Treasury securities—would no longer be guided by interest-rate targets but rather by setting monetary "growth targets." Subsequently, it became apparent that what was really being hinted at was a significant downward change in the rate at which the Fed would be inflating the money supply. M1, the most volatile measure of money supply, had been inflated at an average rate of 8 percent since early 1978. But from October '79 through April '80, it was under 3 percent, which caused the sharp mid-1980 recession and commodity price slump.

Then, from May '80 to April '81, the economy was "fine-tuned" with a 10 percent rate of M1 inflation, fostering the mini-recovery of early 1981.

Then, guess what! You're right—another "policy" reversal. M1 inflation proceeded at a "tight" 5 percent average rate from May '81 through June '82. Guess what again. You've got it—the mid-'81 to end-'82 recession.

By the middle of 1982, with virtually the entire world teetering on the edge of bankruptcy and deflation, the Fed caved in and in the final half of 1982 inflated M1 (hold your breath) at a rate of 17 percent! Hence, the boom of 1983 and the coming global currency collapse.

The decline in interest rates that began in the third quarter of 1981 (when, significantly, short-term rates fell below long-term rates) accelerated dramatically in the second half of 1982 and continued at a more modest pace in 1983's first quarter. Between June '82 and the beginning

Illustrations by Susan Salladé

The darling one-product company of today can suddenly find it has a new competitor with a far-superior product line.

of '83, the discount rate fell from 12 percent to 8½ percent (nearly twice the 2 percent decline in the preceding 12 months) and the prime rate was off 6 percent. Even consumer loan rates at some banks were off about 5 percent in the same period, and mortgage rates had fallen by nearly 6 percent.

These declines were accompanied by a decline in business loan demand of about 25 percent in the second half of '82. This reflected a healthy combination of reduced inventories, increased productive efficiency, greater reliance on businesses' internally generated cash flows, and stepped-up conversion of short-term debt into long term—reliquifying business for the 1983 boom. With the recovery, business loan demand has picked up since December '82.

After a string of 12 consecutive monthly increases, unemployment dropped at the beginning of 1983. Similarly, after 11 consecutive declines, factory capacity utilization rates increased and industrial output generally was up. Durable goods orders, which tend to lead other indicators of economic activity, jumped 9 percent in December and up another 4.5 percent in January.

Both businessmen and consumers are responding to lower interest rates, healthier balance sheets, and pent-up demand after a long recession. Housing starts, which had been in a rising trend since mid-1982, are soaring. Further, this buoyancy comes at a time when the number of new homes on the market is at its lowest level in 11 years. Automobile output showed a healthy jump as 1983 got under way. Housing and autos—shelter and transportation—are the trend-setters for modern industrial economies. Surges in these basic industries invariably must be followed by increased demand for all the metals, lumbers, appliances, and services that more new houses and autos require.

High-technology industries in 1983 may well take second place to housing and autos in leading the emerging boom, simply because housing and autos were so severely depressed earlier. But high-tech industries will give the boom of the mid-1980s a depth and breadth far beyond the thrust in housing and autos. And the share prices of well-managed high-tech companies will continue to reflect the inherent leverage such companies enjoy.

At the end of 1982, James Powell wrote in *World Money Analyst*: "The fundamental reason for the strength in the high technology movement is as simple as it's powerful. High technology products boost productivity in every field. To understand the importance of the high technology-productivity connection, it is necessary to understand the role productivity plays in the competitiveness—and therefore the profits—of any business or industry.

"The competitiveness of a business or industry depends primarily upon the final cost of the product or service rendered compared with that of the competition. If you look at the costs that go into determining the final cost of a product or service, you find that there are really only five. These costs are: the cost of money; raw materials; energy; the cost of capital goods; and human cost, which is a combination of the cost of labor and management. Of these five basic costs, the first four are largely equal from industry to industry and between one country and another. Thus the only way a business or industry can increase its competitive edge is to decrease its human cost. That is, it must find ways to increase productivity....

"Thus, we find the high technology-productivity-profits link to be responsible for the incredible growth in the high technology industry."

The trend-setters in high-tech are the small, flexible, and innovative high-tech entrepreneurs. They have thrived in competition with the hidebound, bureaucratic conglomerates in the recent recessionary environment. New business start-ups have doubled in the past seven years, and the numbers of self-employeds now stand at an all-time high. Many of them fail—one-third of new businesses fail in the first year. But those that succeed generate prosperity for uncounted millions more than do the biggies such as GM and GE.

What we have been witnessing structurally throughout the early 1980s recession and even before is industries adjusting to dramatic changes in both consumer preferences and the technologies available to satisfy these demands. As we move forward in this decade, these trends will intensify.

A recent report in the *Wall Street Journal* provides a clue to the shape of this recovery: " 'Even when we return to 1979 levels of manufacturing, say in 1984,' says Charles Burton, an economist at the Confederation of British Industry, 'the structure will be much different.' He believes that several sectors—autos, steel and textiles, to name three—either will gradually disappear or be transformed by modern technology. Factories will be more automated, employing fewer people...."

The high-tech companies in electronics, particularly those in the burgeoning computer and communications industries, will be the world growth leaders in the emerging mid-1980s boom. Electronics and electrical-industry demand for silver will probably outpace the growth in the photography-industrial demand for silver within two to three years and become the number-one silver user by 1986. That vast, growing, price-inelastic demand is one major consideration behind my prediction of a silver price of over $100 per ounce (in 1982 dollars) by 1986. Of course, taking my prediction of a hyperinflation by 1986 into account, the nominal dollar price will be in the hundreds of dollars per ounce, if not thousands.

Much of the basic industry in the United States has fallen behind international competitors over the past decade. Many US steel, auto, and rubber plants, along with much infrastructure, are outmoded and inefficient. The reason is clear. Just to keep up with its global competitors for world markets, US industry every year

in the past decade would have had to plow 12 percent or more of the gross national product into capital investment for new or improved plant, tools, and automation. In fact, US firms reinvested less than 11 percent of GNP over the past decade. Meanwhile, the Japanese were investing 16 percent and the West Germans 20 percent of their GNP.

As a result, by one estimate, the United States has more than $300 billion of backlogged demand and need for capital projects. If government stepped out of the way of that investment, the United States could experience a capital boom in the next several years that would lift Americans to new peaks of production and prosperity.

Nearly 40 percent of all new businesses are started from the personal savings of the entrepreneurs and their personal backers. Additionally, in 1982, for example, venture-capital firms committed over $6 billion to high-risk, high-tech ventures—a new record. According to the National Association of Small Business Investment, companies financed by venture capital generate 10 times more new jobs that other businesses. Further, according to an MIT study, 66 percent of all new jobs are provided by firms with fewer than 20 employees. If Congress is serious about wanting to cure chronic unemployment, all it needs to do is to repeal the minimum-wage law and give these small firms a tax exemption (the revenues forgone by the government would be far less than its savings on subsidies for the unemployed).

The smaller high-tech firms that have survived the recent recession will do extremely well—far better than any of the industrial giants—in 1983 and beyond as the recovery gets under way in earnest. And they will need new infusions of capital to grow. Many will "go public" or, if already public, will offer new issues of common stock to expand. Simultaneously, the shares of publicly traded high-tech companies, both large and small, that are already well capitalized for growth will rise well ahead of the overall stock market. Many of these companies' stocks have the potential of multiplying in value as the recovery becomes a boom in late 1983 and 1984.

This said, it also needs to be noted that technologies and high-tech companies are extremely dynamic. Thus, the darling company of today, especially the one-product company, can suddenly find it has a new competitor with a far superior and often cheaper product or product line. Managements of such companies, therefore, need to be both alert and flexible.

As 1983 unfolds, a number of carefully selected high-tech stocks should be brought into investment portfolios, with enough diversification to increase the likelihood of including some of those that will multiply in price and to allow for the possibility of one of two selections going sour because of sudden product obsolescence. ◻

Jerome Smith is the author of Silver Profits in the Seventies *(1971),* The Coming Currency Collapse *(1980), and* Silver Profits in the Eighties *(1982). This article is adapted from his quarterly report for Applied Austrian Advisors, an investment service.*

HOWARD RUFF

Ride High with Inflation

One of my investment principles over the years has been that of contrary opinion—that investment markets are at their best when the fewest people want to be in them. This, obviously, is the buy low, sell high concept. It has its limitations, of course: there were wonderful bargains in Saigon real estate the week before Vietnam fell. But if you have the primary trend correct, you can avail yourself of some awesome buys.

The De Beers organization pulled off one of the most incredible coups of our time. Over a two-year period following the 1980 peak in the diamond markets—while everybody was worrying about De Beers's stability and whether it had run out of money to support the diamond markets—De Beers was continually buying diamonds from the mines at lower and lower distress prices and squirreling them away. Anyone who thinks De Beers ran out of money might be interested to know that a significant percentage of its

The primary trend is increasing inflation at least through the end of 1986, peaking perhaps at an annual rate of 25 percent by that time.

net income in the last year (perhaps more than half) came from investment returns on *cash*, other than from its diamond investments.

De Beers is going to feed those stones into the market carefully and benefit tremendously from increased prices. At first, the smaller, lower-investment-grade stones will be going for use in jewelry. Later on, however, one-carat, investment-grade stones of top quality will eventually enjoy the most appreciation, because they are the most scarce and most rare. So you should consider these as part of your portfolio.

Let's consider now, in order of relative strength, those investment opportunities that appear to enjoy the strongest trends. First, but just by a nose, are South African gold-mining shares. American mining shares will probably appreciate as much but will not enjoy the kind of dividends you will see from South African shares. It's one of the few stock investments that I appreciate not only for its capital-gains possibilities but also for its income potential. Many argue that gold does not produce a regular stream of income. But when gold is brought out of the ground and sold, it brings profits to the mining companies.

In a cluster right behind gold-mining shares are platinum and, of course, silver. I am very bullish on platinum over the long haul. And silver is my bellwether investment for the '80s. If I had to bet everything I have on what will appreciate most, I would probably bet on silver even though at this time it comes in behind gold shares in relative strength. And I am not going to consider selling my silver until the price is at least $80 an ounce and preferably over $100 an ounce. Based on both fundamental and technical factors, that's what looks most reasonable from this perspective.

Gold bullion and bonds are next on my list of investment opportunities. I do agree somewhat with Doug Casey, however, that the biggest rally in bonds is behind us. There are still profits to be made, but the risk-reward ratio is not what it was some months ago. I still want some bonds in my portfolio, though, simply because there is still the chance that the whole economic system will come unglued and thrust us into a great deflationary depression. It's a one-in-ten chance, so I don't mind having one dollar out of ten in bonds as a hedge—given the fact, too, that I expect some capital appreciation in addition to the interest earned on the bonds.

I prefer US Treasury bonds. You never know when the credit-rating organizations, Standard & Poor's and Moody's, are going to lower the rating of a corporate or municipal bond and create an instant market drop—as recently happened to the state of California. Treasury bonds offer a hedge against the ultimate possible depression, in case the Federal Reserve should miscalculate in its attempts to keep everything afloat.

I can now offer some general advice to follow in adjusting your investment portfolios over the next year.

The first thing I recommend is perhaps my key investment message. The primary trend is clear—increasing inflation at least through the end of 1986, peaking perhaps at an annual rate of 25 percent by that time. Our best opportunity is to *leverage* ourselves through this trend. And the most advantageous vehicle for leveraging is not the futures market—because of the margin-call risk—but *options on gold-mining shares.* They will outperform gold futures, at least until it seems clear that leadership has passed from the shares to bullion and there is no longer the risk of a margin call. At least part of your money should be in those leveraged investments.

A second recommendation is that you test your level of aggressiveness. See how aggressive you can get and still be comfortable. Work toward the outer limits of your comfort range and get accustomed to reaching. We've got to grasp the iron while it is hot—a cliché, but no less true for being a cliché—and it's going to be hot for awhile.

Another bit of advice is this: learn to accept setbacks—they are going to come. Truly they are going to come. At times the markets will go against us. We will make mistakes—mistakes of timing—but the primary trend will bail us out. Indeed, in none of my recommendations will the primary trend *not* bail us out. Moreover, don't be emotionally attached to any investment. An investment doesn't care if you like it or not—it will perform the same either way.

And my last injunction is: invest in the next generation. One way to do this is to forge a close partnership with the up-and-coming generation, as I am doing with my children. Look for opportunities to put your capital and experience into the establishment of small businesses for the future. One way we can save this country is by having enough people owning businesses to form a national constituency for the free-enterprise system.

Unfortunately, it is historically true that those who have consistently voted for programs that eventually erode the free-enterprise system are the wage earners of America. On the other side of them, generally speaking, have been the capitalists of America. This doesn't mean that there is class warfare here; it simply means that American wage earners do not often understand the personal stake they have in the free-enterprise system.

To make sure that more and more people do become aware of their stake in the free-enterprise system, we can create a pact between the generations—not one that transfers wealth through Social Security taxes to the retired, but one that passes the assets and experience of the retired to the new and rising generation. And nothing creates a capitalist more quickly than the chance of profit or loss ◻

Howard Ruff is editor of The Financial Survival Report *and author of several books on investment and financial survival—most recently,* Survive and Win in the Inflationary Eighties. *This article is adapted from his closing speech to the Howard Ruff National Convention in Orlando, Florida.*

HARRY BROWNE

Beware These Gold & Silver Myths

Many investors have become extremely bullish on gold and silver since last summer. It isn't uncommon to see, in print, price objectives of $1,500 to $4,000 cited for gold and $100 to $200 for silver.

Although I don't believe we'll see $100 silver (unless a runaway inflation causes bread to cost $10 a loaf), it's possible that gold or silver (or both) may be in a new bull market now. However, some of the reasons offered in support of the rosy futures for gold and silver are fallacious.

And if your reasons for making an investment are wrong, you can get hurt—even if the investment is generally right. With wrong reasons, you might stay in too long (as many people did in 1980 by waiting for $100 silver); you might invest more than you should (thinking the investment can't possibly lose); or you might refuse to cut your losses by getting out if the trend goes against you.

So this article examines six bullish arguments for hard money investments that I've seen or heard in the past few months. The sources aren't given because it's the content that's in question, not the speaker. In some cases, I've paraphrased the argument to condense it.

1. *The Federal Reserve has given up its tight-money policy and begun reflating; so price inflation and the gold price will go to new highs.*

It seems to be gospel that the Federal Reserve, afraid of a worsening recession, threw in the towel during the summer of 1982, cranked up the printing presses, flooded the country with new liquidity, and drove interest rates downward. I haven't seen one piece of evidence to support this idea. It simply is assumed that if interest rates fell, the Federal Reserve must have caused the event—as if it were impossible for interest rates to fall for any other reason.

In truth, during the months of the supposed easing, the growth rates for the M2 money supply, for bank reserves, and for the monetary base all slowed from what they had been during the first six months of 1982. It was only at the end of 1982 that monetary growth began to speed up. And that most likely was an aberration that will have been reversed by the time you read this.

The "easing" hypothesis was supported by supposed statements by Fed Chairman Paul Volcker that the Fed was abandoning its money-supply targets in favor of lower interest rates. In fact, he didn't say that.

Because of changes in the laws, banks began offering new types of accounts and services last year. This caused some bank deposits to be switched from one type of account to another. In addition, the downward trend in interest rates caused transfers out of savings accounts and money market certificates and into checking accounts.

Because of these shifts, the Fed expected the M1 money supply to be fairly volatile, while M2 (which includes almost all bank deposits) would be much more steady. So Volcker said the Fed would pretty much ignore M1 for the rest of 1982, paying more attention to M2. But he said nothing about trying to influence interest rates.

The Fed lowered the discount rate several times during 1982. But this was *in response* to falling interest rates, not the cause of them. It has been more than a decade since the discount rate was used as a tool to influence the economy. Had the change in the discount rate been a cause, rather than an effect, the result would have shown up in the monetary aggregates—but there was no big spurt in the monetary aggregates.

Since October 1979, the Federal Reserve has maintained a more consistent monetary policy than it had pursued at any time during the previous 20 years. The Fed might throw all that away tomorrow morning, but there's no evidence so far that it has done so already.

2. *The Fed's reflation has eliminated the possibility of a deflation. There's only one direction from here on—upward—in the money supply, in price inflation, and in the prices of precious metals.*

The possibility of a deflation *hasn't* been eliminated—not yet, at least. In the first place, as I've already said, there's no evidence that the Fed made a significant change in course last year. Second, even if it had, the Fed isn't the sole cause of inflation or deflation. Inflation results from a rise in the supply of money that exceeds any rise in the demand for money. And deflation results from a rise in the demand for money that exceeds the rise in the supply of money.

If the public becomes concerned about the safety of certificates of deposit, commercial paper, and other money substitutes, there could be a run out of these instruments and into cash inself. The demand for money would rise. And since this demand can't be measured on a short-term basis, the Fed might not increase the money supply fast enough to keep up with the rise in demand. The result would be deflation—even as the Fed was inflating the money supply. (Such a possibility is described in more detail in chapter 4 of *Inflation-Proofing Your Investments* by Terry Coxon and myself.)

At some point, the threat of widespread bank and business failures may lessen sufficiently, so that the possibility of a rapid rise in the demand for money will be averted for a few years. But it's also possible that this threat will stay with us for several years. We're no longer in the up-and-down monetary cycles that characterized the 1960s and 1970s; and it's always a mistake to base your investment decisions on patterns that no longer are valid.

3. *The federal budget is out of control. And, historically, the bigger the government spending, the bigger the federal deficit, the bigger the resulting inflation, and, consequently, the higher the gold price.*

Although it's convenient to say that big federal deficits cause inflation, that just isn't the case. Large federal deficits put a strain on the credit markets and *could* encourage the Fed to speed up monetary growth to keep interest rates from rising. But there's no automatic correlation between budget deficits and inflation.

History provides no statistical evidence that the inflation rate is tied to the size of the budget deficit. Consider the figures in the table to the left. Data for the last 10 years show *no* correspondence between the deficit size and either inflation rate—not on a leading, coincident, or lagging basis.

There may be higher inflation rates in the future. But if so, it won't be because such rates were preordained by currently anticipated budget deficits.

Do Deficits Fuel Inflation?

Fiscal Year	Budget Deficit	Monetary Inflation	Price Inflation
1972	$23.2	5.4%	2.9%
1973	14.3	7.7	5.9
1974	3.5	3.3	11.0
1975	43.6	5.7	9.3
1976	66.5	2.3	5.9
1977	45.0	6.8	6.6
1978	48.9	7.9	8.3
1979	27.7	6.5	12.1
1980	59.6	6.5	12.7
1981	57.9	1.5	11.0
1982	110.7	6.8	5.0

Fiscal years through 1976 end in June; thereafter, they end in September. All data correspond to these fiscal years. Budget deficits are in billions of dollars. Inflation figures are increases for the 12-month fiscal-year periods. Monetary inflation is the 12-month growth in M1. Source: various Federal Reserve Bulletins.

4. *In constant dollars, $35 gold in 1968 compares very closely with a $450 price today.*

I don't know how the calculation was made, but I've seen such statements several times—and the conclusion is quite erroneous. A gold price of $35 in 1968 dollars is equivalent to a price of $98 in 1982 dollars.

Fortunately for the gold advocate, however, the argument is meaningless anyway. Prices don't move uniformly. If there were fundamental reasons for the gold price to multiply by 12 while the general price level only quadrupled, so be it.

But gold isn't "cheap" in real historical terms. Even a gold price of $35 in *1934* dollars is equivalent only to a price of $256 in 1982 dollars.

5. *Big gold price increases are coming—if only because there is so much paper money in the world and so little gold.*

Of course there's a great deal of paper money floating around. But so what? Is there 12 times as much paper money as there was when the gold price was $35? The gold price has been rising faster than the growth in paper money over the past decade, so today's level of paper money is no signal that higher gold prices are coming.

6. *The government has created a silver shortage, and since both the supply of silver and the demand for it are inelastic, the shortage can be relieved only at much higher silver prices.*

Shades of 1970! You may think that I dug this argument out of a time machine, but an entire speech detailing this 1970 silver pitch was, according to reports, one of the most popular at the 1982 New Orleans gold conference.

This argument was true once but is no longer so. The market has demonstrated already that the fundamental value of silver is somewhere between $10 and $15. Throughout 1980 and 1981, there was a surplus of silver rather than a

shortage. Neither supply nor demand is inelastic once you get up to $10 or so.

7. *Silver will rise for all the same reasons as for gold; but because the gold-silver ratio is so high now, silver will have a bigger price increase than gold will.*

It is assumed that gold and silver must move in the same direction. In fact, the historical record is otherwise.

The graph below shows the trends for gold and silver over the past 16 years, but with the price movements smoothed out to show the basic trend direction at any given time. At first glance, it appears that gold and silver have moved together over these 16 years.

But look more closely at the graph. For the entire four years of 1974-77, for example, gold and silver were in different trends. While silver was dropping, gold was rising; then silver was in a three-year sideways trend, while gold was in a bear market and then a bull market. Would you have done well during these four years by assuming that gold and silver always move together? In fact, during the 190 months covered by the graph, the two commodities were moving in the same direction during only 104 months, or 55 percent of the time—no more often than might be the case in any random pairing of investments.

Because gold and silver began their latest bear markets together in January 1980 and appear to have ended them together in June 1982, it's easy to think they always move together. Most commodities, however, moved into downtrends in January 1980; gold and silver just happened to be two of them.

I'm not saying that gold and silver are dead and buried. But they should be treated with more caution than 10 years ago.

As for the gold-silver ratio, there's no natural law dictating what that ratio should be. And investors who think they have a sure thing playing ratios get burned in the end.

One example occurred in 1977. The German mark historically had sold at a premium to the Swiss franc. When the franc "temporarily" rose above the mark, "savvy" investors knew to buy the mark and sell the franc short; they couldn't lose, because the mark would eventually rise above the franc again. Today, five years later, the franc has risen to an 18 percent premium above the mark—a bigger premium than in 1977.

Other investors are waiting for the platinum price to return to its "historical premium" over gold. That premium that hasn't existed for over two years.

Gold and silver are separate commodities with separate fundamentals. Gold is primarily a monetary metal, and silver is primarily an industrial metal. Each should be judged on its own merits.

I believe it's more likely that gold and silver will go their separate ways over the coming years. If there's turmoil, gold will rise and silver will drop. If there's prosperity, gold will drop and silver will rise.

Pat arguments and sure things are almost always wrong. In the early 1970s, "everyone knew" that the dollar would never be devalued because it was the reserve currency of the world. But investors who stood apart from the crowd made most of the profits of the 1970s—by betting *against* the dollar and *for* gold, silver, and strong foreign currencies.

Today, those outcast-investments of the 1970s are respectable. And the crowd is ready to reap its profits by betting that the 1970s will be repeated in the 1980s. The arguments I've discussed in this article are some of those upon which the crowd is depending.

I'm not saying that gold and silver are dead and buried. But I believe they should be treated with more caution than seemed appropriate 10 years ago. ◧

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Reason's 10th ANNUAL FINANCIAL SECTION

JAMES E. SINCLAIR AND ROBERT PARKER

Mine the Metals Market

The prospect appears likely that in the years ahead the world will face shortages in some of the most vital raw materials. This risk threatens to cause a seismic shift in world power patterns. The industrial nations will have to give a higher priority than in the past to securing sources of key materials and protecting the sea lanes by which these commodities move to market. Producers and exporters of strategic metals will enjoy an unmatched opportunity to use their resources as geopolitical levers. Whether they will possess the political and diplomatic skills to profit from their opportunity without being drawn into the new Communist colonial empire is still an open question.

At the heart of the problem lies the Soviet Union—rich in oil and other strategic minerals, its industries backward and inefficient, its agriculture chaotic and vulnerable to the vagaries of a brutal climate. To generate funds for its essential imports, the Soviet Union sells oil, gold, and a variety of solid minerals, but it conceals its purposes behind a security curtain and rarely moves in the direction that simple commercial considerations would suggest. Strategic rather than economic goals appear to dominate its behavior, and thus for reasons often unclear to the West, Moscow sells or withholds its strategic minerals in unpredictable patterns. The Soviet Union is not a reliable trading partner, and the West has been forced to develop alternate sources, even for minerals that the Soviets are believed to produce in abundance.

In the long reach of history, access to raw materials and trading routes ("freedom of the seas") has been a classic root cause of conflict among nations, and in the ongoing rivalry between East and West this pattern could play itself out again. Shortages of food and limited economic development in the Soviet Union or the Third World, or denial of essential resources to the West, could surely create international tensions capable of slipping out of control.

It is a normal role of private investors and their professional advisors to try to anticipate geopolitical trends and to act on their interpretation of events. In a world where lack of manganese could shut down whole steel industries, where lack of cobalt could silence a nation's jet fleets and lack of platinum severely impair chemical and refining industries, the potential for international conflict over control of key resources cannot be dismissed.

While sources, supply routes, and price patterns are well established for the major industrial metals, the changing technology of modern industry is constantly affecting the markets for the more obscure "minor metals." These may gain considerable importance even though their total world production is only a few thousand kilograms a year. New developments in solar power generation, electronics, oil refining, and weapons technology have created sharp increases in demand and price for such metals as gallium, germanium, indium, and rhenium. The alert investor is better situated than an inertia-ridden government agency to respond to changing markets and prices.

As trading practices develop and mature, the efficiency and liquidity of markets increases. New market operators enter the field. Information becomes more available and more accessible. The Reuters Money Wire system, for example, offers its subscribers up-to-the-minute market information on a wide range of "minor metals," accessible on a cathode-ray tube upon keying the proper codes. Reuters tracks 15-20 of the commonly traded metals.

A growing interest in the investment potential of strategic metals has led a number of nationally known brokerage firms to offer specialized services in the buying and selling of these commodities. When E. F. Hutton speaks about strategic metals, more and more people are listening. Bache & Co., another nationally known brokerage firm with a renowned commodities trading department, has also moved into the field. Other firms, too, are offering various services, including Strategic Metals and Critical Materials, Inc., a subsidiary of the New York-based Sinclair Group Companies (headed by one of the authors of this article).

The current state of the markets in critical and strategic materials might be compared with the state of the markets in over-the-counter securities before the development of automated quote systems for market-making in NASDAQ-listed stocks and inactively traded securities. Public markets for critical and strategic materials are expanding as supply, industrial demand, and trading

Changing technology of modern industry is constantly affecting the markets for the more obscure "minor metals."

volume increase. These new markets enhance an investor's ability to enter the market with the assurance of being able to buy and sell at prices reasonably reflecting current conditions in an efficient market.

Along with a number of thoroughly reputable and well-financed investment firms, the new field of strategic-metals trading has attracted a quota of unscrupulous operators, more intent on turning a quick profit for themselves than in educating their customers or building a long-term business relationship with them. State and federal securities regulators have been alerted to some of the sharp practices and shady operators entering the field and are on their trail. But to paraphrase the slogan of a well-known discount clothier, an educated consumer is the best customer, in strategic metals as in many other areas. The investor's best protection lies in his own understanding of the field and in being alert to the possible pitfalls.

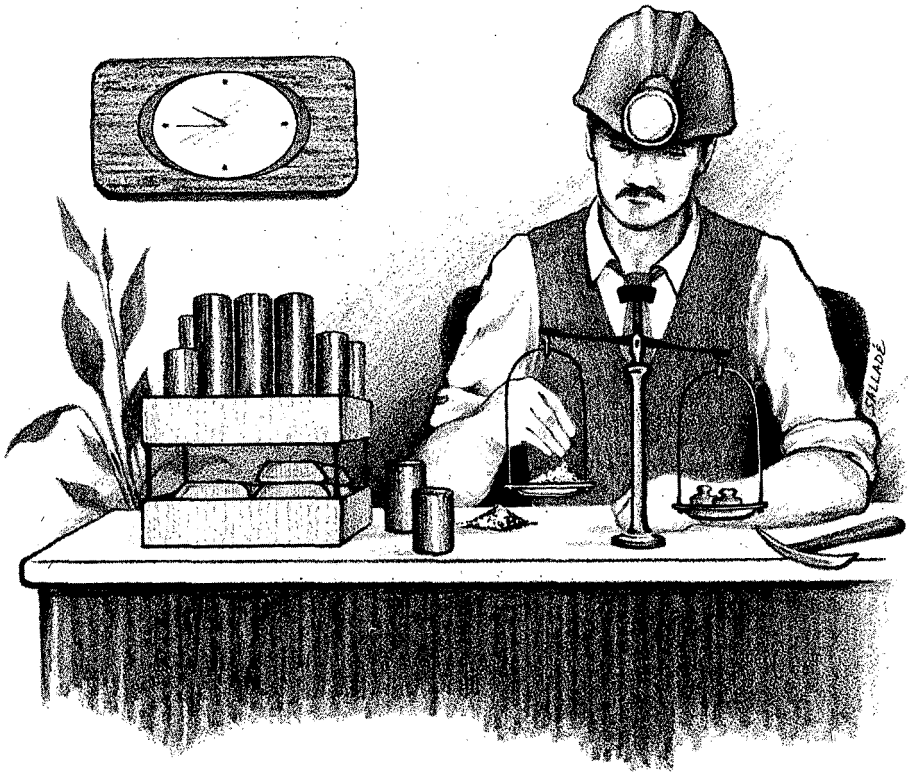
An investor should understand that no broker can legitimately "guarantee" a profit to the buyer, and any smooth-talking telephone caller offering a sure thing should be heard with the utmost skepticism. Second, the investor should be aware that except for the precious metals platinum, silver, and copper, none of the strategic metals is traded in the United States in the form of futures contracts. The investor should expect to buy *and pay fully for materials he acquires.*

Other traps for the unwary are the offering of metals at unrealistically high prices in terms of the market or the offering of commercial grade and therefore difficult to resell. A few tenths of 1 percent in the purity of cobalt and some other metals will make a substantial difference in the market value of the product, so the offering of low-grade material at high-grade prices is, unfortunately, one of the pitfalls to watch for. Beyond that, any salesman exerting undue pressure to "buy now before the price goes up" may be trying to coerce his customer into acting with insufficient information. Use of any of these high-pressure tactics, especially by a telephone caller whom you have never heard of, should serve as a red flag of warning.

It is an axiom in investing that the time to buy is when buyers are scarce, and the time to sell is when others are clamoring to buy. This basic truth is as valid in strategic investment as in any others.

The early 1980s has been a period of worldwide industrial recession, and the prices of many industrial materials, including strategic metals, have fallen below their long-term trend lines. This has been true for cobalt, chromium, manganese, platinum, and many other metals. This suggests that a long-term buying opportunity prevails for investors willing to apply their intelligence and to commit their funds to a form of investment still unfamiliar to many. This favorable period for investment may not last much longer. The time to sell will arrive when tensions rise, materials shortages develop or threaten, and buyers actively bid for available supplies of commodities that the prudent and farsighted have purchased and stored earlier.

An investor who takes into account long-term market cycles, who follows and interprets geopolitical developments, who enters the market with professional care and exits under the guidance of intelligence rather than emotion, may enjoy substantial long-term profits for his foresight. He may also help his country to weather the materials crises that almost surely lie ahead.



Since 1949, when President Truman launched the postwar stockpile program, successive administrations of both parties have concurred in the building of a stockpile of strategic materials for use in a national emergency. In 1982, the stockpile met only about 50 percent of its legislated goals.

The Reagan administration clearly would like to expand the stockpile but surely will be constrained by budgetary considerations from making large new commitments to stockpile expansion. With its philosophical commitment to free-market principles, the administration might well conclude that the national interest will be served by encouraging private investors to buy and hold strategic materials so that they would be available in a national emergency.

One strategy would be for the federal government to offer tax incentives to encourage industry and private investors to build nongovernment stockpiles of critical materials. For industry, such incentives might include substantial acceleration of depreciation allowances and investment tax credits. Together these two provisions could offer private, mineral-consuming industries a powerful incentive to expand their inventories for future consumption.

Application of graduated tax incentives could provide benefits for retention of supplies to cover requirements for several years—a form of accumulation quite difficult when interest rates are sky-high. Corporations could be encouraged to finance these inventories through the issuance of bonds secured by the mineral inventories, and enjoying tax benefits similar to those provided by municipal bonds. These corporate bonds would be very attractive to investors because of their tax incentives and their mineral collateral and would therefore command lower coupon rates, solving

(Continued on p. 54)

JOHN KNEILING

How to Invest A Windfall

Suppose you get a "windfall"—a disability settlement, say, or the sale of a business or an inheritance. Is there a way to invest that money so it will take care of you for the rest of your life?

To answer this question, begin by looking at the sociopolitical climate. Whatever you do, it must be done in that climate—in the real world—and the most serious error you can make is to fail to see the world as it really is. The central fact to recognize is that for the rest of our lives, societal policy—currently manifested in inflation and taxes—will continue to confiscate savings and severely penalize those who create jobs or anything else. Even if serious efforts were under way, it would take some time to change that. And certainly no individual can change the present societal climate. So the task here is to find a means of defense or escape.

Most published material on investment fails when studied in the light of even a modestly long life. Few schemes offer satisfactory results for longer than about 5 to 10 years—not many even approach the high end of this range. And that is clearly not good enough.

So what, then, is to be done with the "windfall"—or with what is left after transaction taxes (capital-gains tax, for one) have taken a piece, often more than half? First, understand that a substantial part of what is left is already effectively confiscated by future inflation and tax liabilities planned for you.

How much? It varies with the investor's age. But in all cases, the investment should be divided into Portfolio A and Portfolio B, and planning is for the investor's lifetime, not forever (as it is for institutions). The part already, effectively confiscated is A. B can produce spending money.

For an investor under about 30 years of age, part A will be about three-quarters of the total. For each year over 30, until age 55 or so, an investor can knock off one percentage point. So a 40-year-old who gets a windfall would put 65 percent of it in Portfolio A. There seems to be no further decline below 50 percent for people past their mid-50s, at least until ages in the 80-plus range are reached, if then. Older investors are concerned with a shorter time, and hence available returns are lower—and they have less chance of hitting a "bleep" in the curves and so getting back some of their own.

The investor between the ages of 30 and 55 cannot, however, transfer one percent a year from A to B. Once the program is set up, A and B live separate lives. (An endowment-fund trustee for a famous college once wrote on this matter. He said that since the college was tax-exempt and had a flow of new capital from affluent alumni, it could, despite its orientation to perpetuity, "avail itself" of an "unusually high" 35 to 40 percent of income from endowment. The rest had to be retained to replace what societal policy had destroyed by inflation and other means.)

Understand, too, that there are no one-decision investments, so there is no real "retirement." Trading and churning are disastrous, but even a "retired" investor still has to stay on top of investments to stay in business. Also, maybe—perhaps usually—the first personal investment should provide and maintain a roof over one's head on a low-profile basis with minimum "involvement." It should at least be considered before moving on to the question of how to put a one-time lump of capital to long-term use.

Portfolio A should be invested for after-tax current yield—probably in municipal bonds. Its income must be reinvested every year. All this portfolio does is replace capital destroyed by wastrel governments. What looks like income and is taxed like income is *not* income. The "income tax" on this "income" is really a tax on a tax—capital is being destroyed, and then government levies a tax on the destruction. You pay both and deduct neither.

Think of the matter in terms of bread. If you spend the "income" from all your

investments, each year you must live on less bread (because inflation eats at your original capital). In effect, then, you have spent—and lost—some capital and have less next year. No matter how high you start, you'll fall into poverty—or at least feel poor.

Variations in "inflation indices" and similar statistical indicators are not to be taken too seriously, much less produce complacency. And Portfolio A investments should be chosen with the intention of holding to maturity—you're not "playing the market."

Now for Portfolio B: Also invest this for best current yield, again intending to hold each piece to maturity. At this writing, preferred stocks of pretty good utilities are probably the best bet, followed by tax-exempt bonds. Within limits, you might include in this portfolio some tax gimmicks, like utility stocks that pay return-of-capital dividends.

Some may object to this strategy of "working the system." Municipal bond-issuing agencies and utilities *are* creatures of government, and both are running Ponzi games—chain letters—that would get anyone else in jail. But my advice is to find a competent thief and buy his stock—New York City GO (general obligation) bonds, for instance. Bothered by the bad press? The fact is, New York City tried to default on *notes*—not bonds—and even that did not work. If it runs itself through bankruptcy, a court will heave out the thieves in city hall and install its own thieves. You can then count on the incumbents to protect their license to steal. So the bonds are safe—not because the politicians are honest, but precisely because they are not. And as long as bad press leads many around the country to sell their bonds cheap, buy them—cheap.

Portfolio B is to produce spendable income. Remember, for most, B is only part of the total windfall investment. If you feel you need more money, join the club. The question is not what you need or would like or deserve but what you have and what you can do with it. Do you want to be in poverty in a few years just to have more to spend this year?

Bonds, when used, should have staggered maturities to avoid grouping capital gains and for better reinvestment results. Usually, the longer the maturity, the better the yield. The investor need not live to see the bonds mature—all that's important is current yield.

As well as being staggered, maturities should run until the investor is at least 70 years old. This may be impractical for younger investors, but for most it is possible.

There is a hazard to watch for, however—calls. Utility preferreds and most bonds, even many municipals, are callable. A call, in an income portfolio, is bad news. And don't let a broker tell you about your "profit" when the call price is higher than the original price—that only makes it worse. A bond or preferred stock is called only when market conditions are such that its holder cannot reinvest the proceeds as profitably—the call is for the purpose of reducing interest outlays, which are investors' income. And the tax on that so-called profit just makes the investor's decline deeper.

Only a few available securities are noncallable, but there are some nearly call-proof ones. One class is the old, low-coupon, long bonds. When their call price is equivalent to 4 percent or 5 percent money, there will be few calls. And with sinking funds, as each tranche is retired the issuer will buy in the market as long as high interest rates hold down the market price of the bonds; so there will be few calls until nearly all of the bonds have been retired.

What about common stocks? Few are recommendable, and then only in things like utilities. There is little expectation of real price increases here, because the prospects for the US industrial economy are not good. Some utility commons—capital-intensive, rather than labor-intensive, and outfits that have already bought their legislatures—are the only equities worth serious thought.

This strategy, of course, assumes taking advantage of all the tax angles in sight—Keogh plans and IRAs and utility-dividend reinvestments, for instance—and taking Social Security when and if it is paid. (Yes, it will be paid—but in what coin and with what strings? The same applies to huge IRA payouts—they'll have to be in funny money, for the promise is not fulfillable.)

Yes, these investments *do* put money right into the viper's den—right into government itself, local government. But remember, one of our basic assumptions is that the productive economy is increasingly burdened (by government) and is not surviving. So the rule still is: Find a competent thief and buy his stock. And what else is a local bond? (But beware *incompetent* thieves: Cleveland defaulted on $15 million.)

Another angle is stripped bonds, or "zeroes." They have value, but they are almost *too* good—so good that the IRS is demanding tax in advance on the repayment of principal, which it classifies as interest. Don't start crusades. For now, municipal zeroes of your home state are okay for the purpose of buying yourself a "raise" at intervals, when these proceeds can be used profitably to buy annuities. But look into single-payment, one-life, nonrefunding, conditional deferred annuities from insurance companies to do the same thing, and comparison-shop. Insurance company investments are mostly marginal or less, but check them out anyway.

A substantial part of a windfall is already confiscated by future inflation and tax liabilities planned for you.

The money yielded by Portfolio A should not be spent but should be placed in a money fund or interest-bearing checking account. Set up a separate account in a separate bank if you have to, but don't spend this money. At suitable intervals—annually, at the longest—this money earned from Portfolio A should be reinvested for best current yield. Whatever it buys—bonds, annuities in later years, and so on—should then go into B.

Interest and other income from investments in Portfolio B is for spending. Obviously, when you buy an investment with Portfolio A's earnings and put it in Portfolio B, the cash flowing from B increases. And each increase, once established, does not reverse.

When the IRA or Keogh account must be liquidated at age 70, it will usually be

(Continued on p. 54)

REASON INTERVIEW

James U. Blanchard III

James U. Blanchard III is one of the most widely followed experts on precious-metals investing. His Gold Newsletter *is a well-known source of information on economic and political trends affecting precious metals. And though Blanchard himself is perhaps best known as the sponsor of a large annual investment conference in New Orleans, his main purpose is grounded in a political philosophy.*

As a young man, Blanchard was disabled in an automobile accident—a fact, however, that has shown no effect either on his strength of will or on his commitment to certain philosophical and political principles. In the late '60s, he established the National Committee to Legalize Gold and orchestrated a publicity campaign and a lobbying effort on behalf of Americans' right to own gold. Following the success of that effort in 1975, he enlarged the scope of his campaign with the National Committee for Monetary Reform.

Since the mid-1970s, the primary vehicle for his monetary-reform movement has been the "investment conference," which has sparked numerous imitations. Free-market supporters and hard-asset investors will gather in New Orleans this fall for Blanchard's 10th annual conference.

He is now president of James U. Blanchard & Co., one of the largest marketers of US silver coins. First developed as a conference sideline, the corporation is both respected and profitable. Blanchard also founded Adam Smith Publishing to print and distribute books and reports on investing.

Recently, REASON *Contributing Editor Joe Cobb interviewed Jim Blanchard.*

REASON: Jim, I've read that you were influenced in your early days by the writings of Ayn Rand. What is it about the philosophy of individualism that first attracted you?

BLANCHARD: Well, it went back even further than Rand. In my high school days I had a very individualistic philosophy. I wasn't actually clear on it—it was sort of a gut feeling, influenced by some of my teachers in high school, Walt Whitman, Emerson, and those kinds of people. I always liked the sort of

Photographs by Jane Taylor

heroic, individualistic framework within which people discussed American history. For years I've had a fascination with the American West and the entrepreneurship that went into building the great mining industries and the cattle industry, and just the guts it takes to be an explorer. That was sort of a framework before I first heard of Rand.

I was sitting on my front porch—I guess it was 1961. A next-door neighbor came up and threw a little paperback book on my lap and said, "Hey, you ought to read this, science fiction," which I have always had a love for. It was a copy of *Anthem.* Shortly thereafter, I read all of Ayn Rand's books, and that's where I got really interested in free-market ideas.

She, at that time, was writing a publication, the *Objectivist Newsletter,* and in that publication she had a recommended reading list. Among those authors were Ludwig von Mises and F. A. Hayek, and that's when I started reading a lot of economics. It's really a hobby for me, and through my college years I educated myself by reading everything that was published by anybody who was free-market-oriented and Austrian. From that I got interested in the hard-money aspects of what Hayek and von Mises were saying—in effect, that we had this tremendous growth in government intervention and, without a gold standard, without any kind of governor on spending, there would be a colossal buildup in debt and a trend toward fiat money and currency depreciation. That spelled to me that hard assets of all types should be good investments.

REASON: When and how did you get interested in the idea of legalizing gold?

BLANCHARD: I had been a gold and silver investor since late 1967. I had always been an entrepreneurial type and was always, during my years in school, in the afternoons and in the summer, working and doing various things and had built up a little investment capital. In late 1967 and early 1968, because I was really convinced more than ever that we were going to have a long-term inflationary scenario, I went out and bought gold-oriented investments. You couldn't buy gold bullion, though, and that really pissed me off. But I bought US gold coins and silver and gold-mining shares. The more I thought about it, the more I thought it was ridiculous that you couldn't own gold bullion. I sat down one evening in my apartment with a friend at that time, Evan Soulé, and I just decided we should try to do something about it.

About a year and a half before that, while I was in school, I had written an open letter to Milton Friedman, trying to convince him that there was a contradiction in his thinking. He was obviously a great thinker in favor of the free market, but when it came to money there was a contradiction. I wrote him this long letter that gold was really the only answer, to get him to change his mind on that or at least be more open about it. I sent a copy of that letter to Harry Schultz, whom I had become sort of a pen pal with, because I had respected his writings and I took his newsletter very early. And he published that letter as an entire issue of the *Harry Schultz Letter.*

Because my letter was published there, I would say 50 different people wrote to me. I wrote a letter to all of them, saying that I was starting this little committee, the National Committee to Legalize Gold, and I wanted contributions. I put in the first $200 to buy stamps and stationery and got on the phone and begged and borrowed some more names—100 names here, 50 names there. John McFalls, an investment advisor in Seattle, was very instrumental, because he let us use a list of 2,000 people. From that first list of 50 people, I was shocked that we got back a total of $500.

REASON: What were the first activities of the committee?

BLANCHARD: They were purely of an educational nature in the very beginning. That was in the days, you remember, of Vietnam and draft-card burning, and the press always likes a protest stunt or whatever. I got the idea that what we would do is use gold as a protest and challenge the US Treasury. At that time it was 10 years in jail or a $10,000 fine as the penalty for owning gold bullion. A friend of mine who went to an Eastern school was helping to pay his way through school by smuggling small amounts of gold across the Canadian border. I bought my first illegal gold, which was a Bank of Montreal two-ounce gold bar, and we used that little bar as the first challenge. In Houston, the Midwest, the East, California, and here in New Orleans, we would call a press conference, say we were going to display illegal gold bullion, and challenge the Treasury to take legal action against us. It was clearly breaking the law, and of course it worked fairly well. All the news media would come, including some of the national media, and take close-up photographs of the gold bar. We would pass out literature saying why it was totally irrational to make gold illegal and to throw somebody in prison for 10 years for just trying to protect himself against currency depreciation. And we did other stunts. We buzzed Richard Nixon's 1972 inauguration with a big biplane with a sign that said "Legalize Gold," and we wrote tons of letters to Congress.

We concentrated on a dual effort of trying to go for the conservatives and for moderates and liberals. The conservatives were interested, in many cases, because they understood the fundamentals involved. The moderates thought that maybe there was a contradiction—I mean, why prohibit Americans? The Treasury at that time had the opinion that gold was not money, and they were going to demonetize gold. But why were Americans prevented from owning it if it was just another commodity like lead or zinc? So we used that angle with both the moderates and the liberals, and many of the liberals just really didn't know how valuable a tool gold could be against government inflationary policy. We used their ignorance to our advantage, and we got a coalition of conservatives, moderates, and liberals to get behind the thing. There was a lot of Treasury opposition to it—very, very strong Treasury opposition—but it went through Congress.

REASON: Did you have a Washington office, or did you do most of this from home?

BLANCHARD: No, most of it by just friendly contacts in Washington. People like Phil Crane and Jim McClure of Idaho and Steve Symms and a long list of others. We sent a lot of newsletters and personal letters and that type thing. A lot of telephone calls.

REASON: I noticed that you didn't mention Jesse Helms, although he was the one who introduced the bill in the Senate. What was your relationship with Helms in this activity?

BLANCHARD: Very good. We always have had a very good relationship with Helms. I have my differences with Helms on some things, but as far as his economics goes, I think he is probably one of the only senators who has a tattered and torn, underlined copy of *Human Action* [by Ludwig von Mises], so on economics there's a lot I can agree with Helm about. He really fights for his convictions in those areas, so we have always had a good relationship with him and one of his key staff members, Howard Segermark.

REASON: When did you start having major investment conferences?

BLANCHARD: We had the first one—and it was really the first hard-money conference ever held in this country—in March 1974. It was a way to raise money, and it worked out very well. I was surprised. I thought we would have 200-300 people. People were starved for investment-protection information—in other words, how to buy gold, where to buy it, how to buy gold shares, that type of information; issues like, what is really going to happen to inflation, what is the long-term outlook for government spending and debt, and all those

issues. And with very little promotion, we ended up attracting about 700 people to New Orleans, and each year after that we expanded. With the legalization of gold, we changed the name of our group to the National Committee for Monetary Reform and continued the educational efforts with much less direct political involvement. NCMR is a long-term educational campaign with occasional papers and cassettes and the conferences themselves, which allow us to finance this internally. The whole proposition becomes profitable, so we don't have to go to the various people who come to the conferences and take the newsletters and ask for "donations."

In the conferences and the various publications, we try as much as commercially possible to have pro-free-market people. We have had Milton Friedman, F. A. Hayek, Bill Simon, Hans Sennholz. We always try at the conferences to cover the general economic overview of why government intervention in the economy is so destructive, and then from that, of course, it flows that something is going to happen to you and your money. That's where an investment angle comes in, and that's what makes it commercially viable. You really don't have to run around bugging people for major contributions to continue the thing, because it's a service that the market demands.

"We would call a press conference, say we were going to display illegal gold bullion, and challenge the Treasury to take action against us."

REASON: Let's talk about the current economic situation. Often times you have forecast that gold would be at $2,000, $3,000, $4,000, an ounce. What is your outlook for the economy in the next 12 months?

BLANCHARD: I think that this will be the last year of single-digit inflation. I think that precious metals had their severe sell-off last year. The market had gotten really carried away with itself, and a correction had to come. The excuse was this drop in the oil prices, and of course in the long term that is not going to have anything to do with the colossal amount of inflation that I see down the line. The next 12 months will see continued moderate inflation figures. I think there will be a general business recovery—we passed the bottom of this cycle. I think that precious metals will tend to establish a trading base and probably be higher—in the high $500s or the low $600s—by the end of the year. So this is the base-building period, the last year of single-digit inflation before we go into a real explosion of inflation rates to new all-time highs over the next three years. For the period 1984 to 1985 and perhaps even early 1986, you can see the inflation rate go to a peak 20 to 25 percent.

Under those conditions, associated with tremendous new speculative interest in gold, prices could explode. If you remember, in the last cycle there was a lot of excitement about gold, but primarily it was just the gold-oriented, hard-money investors in the United States who got on board. Very few average Americans purchased gold. It's been estimated, and there have been several pretty extensive studies done, that only about 4 percent of American investors bought gold and silver. I think that in this next cycle it could get up to levels of 10, 15, 20, percent. Who knows? I think it will get overdone, and that's why I think even $4,000 an ounce is possible. I've always said that it's possible, but I've always been careful to say that you shouldn't absolutely expect those extremes.

Certainly $50 silver and $1,500 gold are reasonable expectations based on just the fact that we are going to have much higher inflation levels and the fact that we are in a period of unprecedented growth in government debt. All you have to do is look at the relationship between the growth of government debt and the consumer price index, and you see that there is an unbroken correlation. Of course, it's obvious that there would be. You know, one of my favorite books, which I read years and years ago, was by Charles Holt Carrol, *The Organization of Debt into Currency.* A large percentage of the huge budget deficits over the next three to four years is going to be monetized, and we are, I think, going to see record inflation rates. Now I disagree with those people who say we are going to have hyperinflation anytime soon. I don't think that is the case at all. Down the line it is more a probability than a possibility, but who knows how long down the line.

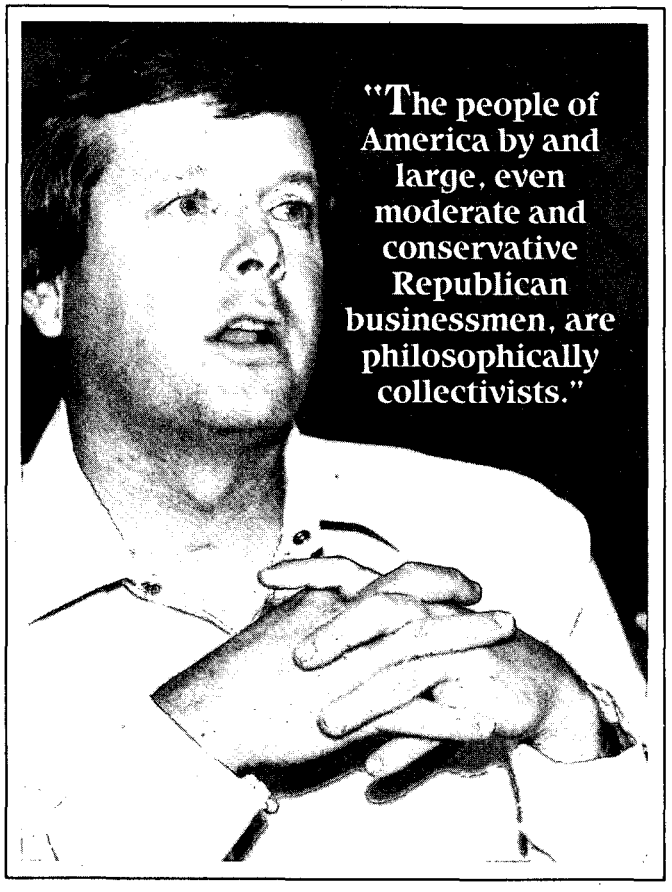
REASON: You sound very pessimistic about the ability of Ronald Reagan to achieve anything similar to what everybody originally expected.

BLANCHARD: From the very, very beginning I was pessimistic. Shortly after he was elected, we had our New Orleans conference, and I predicted at that conference that although Reagan was obviously a very sincere person and believed he could turn the thing around and was going to balance the budget by 1984 and all these things, he would go down in history as the biggest taxer and biggest spender ever. And I think that is exactly what is going to happen.

The problem is just bigger than one man, plus Reagan has abandoned most of his free-market-oriented advisors. Early on, he was advised by people like Jack Kemp and Lew Lehrman and others to issue an emergency declaration—that the country was in an economic emergency, that we were going to have to go through a period of belt-tightening that would be unprecedented in modern times; but from that we could have a huge new growth, we could slash taxes and slash spending, and we could have several decades of massive boom in the US economy. In a sense, that was obviously excellent advice, but in a sense it was impossible that it would be fulfilled. There is a basic contradiction. The people of America—and this is the key issue—the people of America by and large, even moderate and conservative Republican businessmen, are philosophically collectivists. And many of them don't know they are. Americans as a people still have a lot of individualistic traditions. That's great, and that makes us a strong and beautiful country

in many ways. But at the same time, you know, most people tend to look to Washington or local government to solve problems when they really get bad. And as long as you have a socio-economic movement in the country that is philosophically founded and long-term in nature and that says, in effect, that it's all right for government to interfere in our lives and government needs to get involved in this and that and the other, then you are going to have massive growth in government intervention. Government debt and all the detrimental things that that implies down the line are going to come about.

REASON: Jim, how have you developed your own portfolio, your own investments? I know that you have the brokerage firm, James U. Blanchard & Co., as well as the publishing firm, Adam Smith Publishing. What other investments have you made?


"The people of America by and large, even moderate and conservative Republican businessmen, are philosophically collectivists."

BLANCHARD: Very early on I decided to get into the actual hard assets themselves, and that's why I started the coin business and the bullion business, which at first was handled as just a sole proprietorship, on a very part-time basis. Then four-and-a-half years ago it was incorporated, and we expanded our activities. That company has grown to be one of the biggest in the country that operates not only as a broker but as a dealer.

Our specialty primarily is the seminumismatic area of US gold coins and US silver dollars and that type of investment, which I think in many ways has more potential than bullion itself. Certainly it has the added protection that it is extremely liquid. It is a double-play investment that would tend to go up as much as the price of gold and silver but at the same time tends to have less downside risk. It also offers protection against government-orchestrated gold confiscation, which over the longer term could even be argued as a probability. I don't think this is something anybody needs to be worried about in the next two or three years, but certainly in the longer term, the next 5 to 10 years, it is something that people should keep their eyes on. Under the Gold Reserve Act of 1934, numismatics are specifically not covered in the confiscation powers. So that is an area that we concentrated on, and it's been very profitable for us. And I think we are also doing a service to the hard-money community by supplying that.

REASON: As a wrap-up, are there any subjects or comments that you might like to raise?

BLANCHARD: I think that this issue, this special financial issue of REASON, is coming at a very critical time, because as I said, this is going to be the last year for single-digit inflation. It is a year that will be dominated by bargain prices in all the hard assets. Of course, people who read REASON magazine tend to be way beyond most people in the sense that they do understand the awesome implications of this tremendous growth of collectivism in its various forms in the world. One of the things that implies is that fiat money is going to be destroyed on an unprecedented scale in this next decade, and this is the foundation for a massive move down the line in the hard assets, in both coins and bullion, to prices that will be shocking. So it's really the last chance for the person who is free-market-oriented, who does understand the implications of all this, to get on board and put away some fully owned precious metals and not—repeat, *not*—get involved in highly leveraged, speculative futures situations. If the investor can afford to buy even one krugerrand or one roll of Morgan silver dollars—whatever he buys now is almost certainly going to be worth a lot more money both in real terms and paper terms down the line than it is now.

REASON: Gary North, a year ago or so, recommended that his readers buy US silver dimes, because if the ultimate disaster comes, you want to be able to spend your silver for food in the smallest possible units.

BLANCHARD: Yes, I think there's a lot to that. I've said all along that I think every family should own a bag—or if you can't afford a half bag or a bag, a quarter bag—of what I call "junk silver" coin. Now is a good time to buy them, too, because the premium is very, very low on dimes and quarters and halves, and I don't think you need to concentrate just on dimes, but dimes and quarters. Most of the bags are quarters, and I think quarters are fine. Everybody should have some of those. But everybody should keep in mind that that is just for your survival. As a silver investment for survival purposes, it has excellent points; but for investment income, you are going to make a lot more money buying some of the nicer-quality uncirculated silver dollars, US gold coins, and that type thing than you are going to do by buying this junk silver. But everybody should have some for the long-term survival aspect.

REASON: What do you think of the survivalist movement? Do you think that, given the forecast of a collapse at least of paper money, we are moving into a stage where perhaps 100 years from now we will be back in the Dark Ages?

BLANCHARD: Well, I tell you, I'm more optimistic than that. That's certainly possible, and who knows what is going to happen? There are some very scary trends at work. But also I'm very encouraged, because I can remember when I could read every newsletter, every book, every publication, every magazine—anything that had to do with free-market economics, libertarianism, etc. Now I have stacks and stacks of books that I haven't been able to get to, massive amounts of correspondence, newsletters up to my ears. There is a tremendous intellectual movement in this country toward the free market.

If we just can buy enough time and we don't have either one of the extremes—either a total collapse or hyperinflation (or the ultimate evil, a world war)—if we can just buy enough time.... And I think it's really probable that we can, because I've learned over the years that almost all things take longer than most people think.

Subways

(Continued from p. 33)

fore, a second crewman is needed solely to view the platform and signal the engineer that all is clear for departure. Car-width engineer's cabs would enable the driver to view both platforms, thus eliminating the necessity of the second crewman.

The system employs far too many people in other ways, as well. The MTA's bloated staff stands out among North American subways for "its unusually high ratio of maintenance-of-way employees per mile of track," Pushkarev reports. It has, for example, four times Toronto's staff per track-mile. Pushkarev claims that "with relatively modest changes in technology and manning requirements" as already reported, the New York subways could be run with 65 percent of their present employees.

It is clear, in other words, that the New York subways need not be a dying industry. Yet, such is the immobilism of the MTA bureaucracy that none of these opportunities for growth and streamlining is being seriously addressed. Private operators of the subways, however, could be counted on to search out and make the most of every plausible revenue-enhancing and cost-cutting opportunity.

Thus, it seems more than reasonable to suggest that the New York City subways could indeed be entirely self-supporting. The MTA's little-noticed study of responsiveness to fare increases meets the perennial objection of those who view transit as inherently unprofitable. Granted, a few subsidies remained even in the study's most austere scenario. Yet every expert who has looked at the system has noted the wide-ranging possibilities for cost and service improvements—while lamenting the utter inability of the MTA to exploit them. This is strong support for the contention that under private operation *all* subsidies could be removed and the system would survive—and prosper. It's time to let the taxpayers get off!

By the way, I asked Daniel Brand, the transportation expert who directed the MTA's study by Charles River Associates, whether in his opinion the study supports the case for selling the subways to private investors. It is noteworthy, and no doubt politic on his part, that Brand declined to make a comment for the record. ◻

Peter Samuel is a Washington-based feature writer for the Murdoch newspaper chain. His frequent contributions to REASON *include "Unload the Subways" in May 1982.*

Metals Market

(Continued from p. 47)

the problem of money availability and cost.

Tax benefits could also be made available to the private investor. Those benefits could take the form of lower taxes on capital on minerals in which the US government has stockpile requirements. Investors' inventory should be subject to depreciation allowances.

To qualify for these benefits, mineral stockpiles would have to be stored in the taxpayer's country of citizenship, whether the United States or one of its free-world allies. Investors who chose to take advantage of these tax incentives would be entering into an explicit or implicit contractual relationship with the government, giving the government the option of purchasing the stored materials in time of emergency. The regulations setting up this relationship should clearly define the emergency in which the government could exercise the option to purchase the materials, and it should clearly set forth the method and timing of payment. Further tax incentives should be applied in case of a national emergency and the purchase of private stockpiles.

The most legitimate purpose of tax incentives and tax shelters is to stimulate investment in areas of industry in which risk and national need exist but in which a capital base is lacking or deficient. During a recession, demand so created should not overly distort markets. Can there be a more legitimate application of the tax-shelter principle than maintaining the independence of the free world or preventing mass unemployment in industries that would be severely damaged by a minerals embargo?

The authors believe that to encourage private stockpiling would clearly enhance national security at minimal cost to the Treasury in forgone tax receipts. And they would have far less impact on inflation than would expanding the federal deficit to finance government stockpiles with borrowed money.

Whether on not the government encourages such investment, however, vital raw materials present an outstanding investment opportunity. And with the markets in such materials increasingly efficient and liquid, investing in strategic metals is now within reach of ordinary investors. ◻

James Sinclair, founder of Sinclair Securities, publishes a biweekly investment commentary. Robert Parker is a journalist. This article is adapted, by permission of the authors, from their recently published book, The Strategic Metals War.

Windfall

(Continued from p. 49)

most profitable to buy an immediate nonrefunding annuity. And thereafter, each year, before reinvesting this annuity income, compare the after-tax yield between annuities and other available investments (generally, municipal bonds).

By that time, too, some long bonds may be maturing or even may be called, and reinvestment of the proceeds in annuities merits comparison shopping. As always, the comparison basis is after-tax current yield. But a maturing, sold, or called bond from A should be reinvested in A, and one from B should be reinvested in B.

If an investor lives long enough, it may be profitable to sell, in small pieces, parts of each portfolio not yet matured to reinvest in annuities, to increase both current income in B and reinvestment cash flow in A.

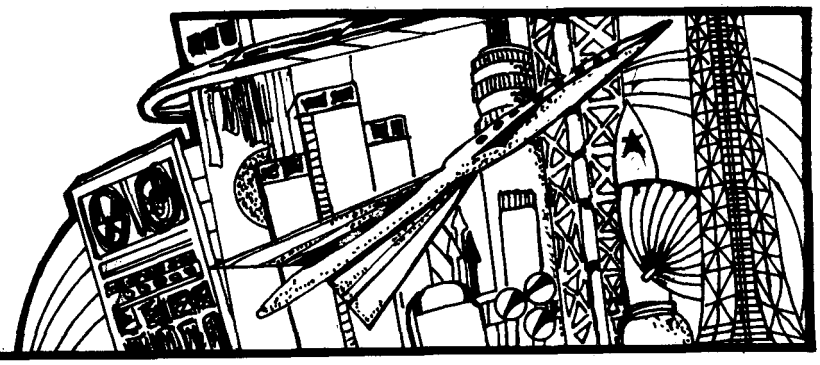
The object of the strategy I recommend is to get the most disposable income possible, subject to the requirement that it be sustainable in *real terms* as long as the investor lives. Income in current dollars is meaningless. If the investor lives to a very old age and societal conditions continue to worsen, he will need accelerating gains in current dollar income—hence the recommendation to buy annuities in later years, where level annual reinvestment produces accelerating gains.

The investor must reconcile himself to seeing half or more of his capital—and, hence, apparent "income"—devoted to repairing each year's damage—to replacing what is taken by governments via taxes and inflation to buy the votes of increasingly numerous improvident ones. He need not like the idea, but he ignores it at grave peril. He must forgo spending much of what *looks* like income so that *real* spendable income will be maintained. Agreed, if the investor lives long enough—90 or 100 years, say—he may leave very little estate, for by then he will have bought annuities (not all at once, of course). But the planning here is for a lifetime, not perpetuity.

Normally, portfolio A will not increase in value except to the extent that bonds bought at a discount rise to par as maturity approaches. Portfolio B will normally increase in value as long as reinvestment is in bonds. It will then level off as reinvestment is in annuities. Both portfolios will decline as capital is converted into annuities. And if the investor lives long enough, he will have effectively "taken it with him." ◻

John Kneiling is a columnist for Trains.

FUTURE GETTING OUT OF HAND?



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Gold Theories Devalued

BY STEVEN K. BECKNER

Despite the repeated efforts of gold bugs and anti-gold bugs—"worms," as Nicholas Deak used to call them—it's very difficult to read great meaning into fluctuations of the gold price. That's true even of the rather wide price swings gold has become prone to in recent years.

For instance, take the sudden and dramatic fall in the price of the yellow metal that occurred in late February—a slide of over $100 per ounce in little more than a week's time. This "collapse" was the occasion for the eleventy-fifth declaration that "gold is dead"—or had "turned to lead" or "lost its luster." You can choose your own cliché.

As usual, the Cassandras were wrong, possibly because their market perspective is blinded by moral outrage. One financial writer recently suggested to me that it's evil for people to invest in a nonproductive asset like gold at a time of high unemployment.

True, it looked pretty grim for a couple of days as gold, which had been trading in excess of $500, briefly traded under the $400 mark. In a single day, gold dropped by $42.50 per ounce. Its cousin, silver, also took a plunge of $4.30 per ounce from its 1983 high of $14.66.

But, after testing the $400 level, gold bobbed right back up—"just like Ivory Soap," as Wray Kunkle, a futures trader for Voss & Co., likes to say. As this was written in mid-March, gold was trading at around $426. Silver was back up to $11.28 per ounce.

There was a point last summer when it really did look like the precious metals were breathing their last. In August, silver had, almost unimaginably, traded briefly below $5 per ounce—compared to an equally unimaginable high of $50 per ounce back in January 1980. Gold had gone down in August to $289 per ounce. Here's hoping you bought at the lower prices, but the tendency for all too many investors is to get the buying fever near the peak and to avoid the metals like a plague when they seem to be going down for the count.

Asked to explain why gold and silver bounced back from those August lows to over $500 and $14 per ounce respectively, precious metals expert Glen Kirsch of International Financial Consultants joked, "More buyers than sellers." That's actually probably as good a reason as any, given the wildness and unpredictability of the markets these past few years.

Seriously, Kirsch said it is "very natural to expect it to buoy after such a drop." Ordinarily, commodities make a 50 percent retracing of both up and down moves. In coming back from its low last year, he said, the metals overshot that measuring stick and were therefore due for a correction. But then, of course, the March rally from February lows could be explained in the same technical fashion.

For the more fundamentally inclined, gold and silver reached their depths last summer as interest rates had peaked and inflation rates were beginning to scrape bottom. Then, about the time, oddly enough, that the stock market began its historic rally, the precious metals began rising.

The Federal Reserve was pushing down interest rates, making nonearning metals relatively more attractive to finance and hold. Rapid monetary growth and expectations of recovery also increased demand for precious metals. It doesn't take many people worrying about renewed inflation or dollar weakness to get gold moving.

Silver moved along with gold, but with an added impetus. For one thing, it was undervalued relative to gold, in terms of traditional price ratios. For another, being a widely used industrial metal, hope of recovery spurred demand for silver more than for the monetary metal, gold. Finally, depressed copper production constrained supplies of silver, a by-product. The net result was that, while gold rose 75 percent through January, silver nearly tripled.

As for the subsequent price "collapse," there have been all kinds of explanations and speculations in addition to the strictly technical ones. One has the Soviets and Saudis dumping gold, out of opportunism in the first instance and financial need in the second. Some of both is probably true.

The most popular explanation attributes the price weakness in precious metals to that in oil. That certainly can't be ignored. It is undeniable that a gold-oil price relationship has developed since OPEC started manipulating the price of oil. But, as Kirsch notes, "That's old news. Oil prices have been declining for some time." Only if oil prices decline much further than expected, leading to lower expectations for commodity prices in general, is gold likely to fall out of bed.

Michael Checkan, assistant manager of Deak-Perera in Washington, notes that the latest OPEC flare-up caused "a lot of people to get burned and driven out of the market" as the news of oil price cuts precipitated a panicky sell-off that forced traders to sell out of their long futures positions. Whatever the reasons, both Checkan and Kirsch agree that silver at around $10 and gold at around $400 are excellent long-term buys. But Checkan advises investors to "stay away from the futures market."

Regardless of the oil price, there are growing signs suggesting that we are not, as the conventional wisdom now has it, in a "disinflationary" period. Somehow the federal budget deficit (en route to $250 billion or more in coming years) must be financed, since it is unlikely that Congress will do the right thing and cut spending. Overtly raising taxes or borrowing every available penny of private savings would create a stagnant economy. That isn't politically expedient.

Interest-rate pressures resulting from the collision of recovery and federal borrowing will tempt the Federal Reserve irresistably to accommodate the government and the private sector with inflationary monetary policies. It also looks increasingly likely that Congress will repeal tax indexation, which only makes sense if the government expects inflation to provide a windfall of revenues from bracket creep. It will be a while before reflation fully asserts itself, but it may not be long before the gold market begins anticipating it.

Do you have an investment question? Mr. Beckner may have the answer. Send your query along to REASON Money, Box 40105, Santa Barbara, CA 93103. (A limited number of reader questions can be answered in print; personal replies cannot be made.)

Steve Beckner is a financial reporter and columnist for the Washington Times *and the author of* The Hard Money Book.

Put This in Your Tailpipe!

BY DURK PEARSON AND SANDY SHAW

September had come before we reached the Salt Lake, which we struck at its northern extremity. . . . Indian fires obscured mountains and valleys in a dense smoky atmosphere so that we could not see for any considerable distance.

—John Bidwell, pioneer on the first covered-wagon train to California, 1841

Considerable controversy surrounds the question how to cost-effectively control pollutants that may be hazardous to a small fraction of the population. Airborne lead, for example, might be a problem for some children. On the other hand, the expensive burden of regulation to control the lead content of gasoline has had a seriously negative effect on the automobile industry, and nearly a million barrels per day of *extra* oil must be imported to make up for substantial inefficiencies in the refining and use of unleaded and low-lead gas. Less-expensive alternatives have not been explored in the United States, even though lead in gasoline is generally unrestricted in Europe.

Inner-city whites have much lower lead levels than do inner-city blacks. Yet both groups breathe the same air, and rural blacks and whites have roughly comparable lead levels. So we must conclude that the principal lead hazard to inner-city blacks is not airborne lead from gasoline. In our opinion, much more concentrated sources of lead—the lead paint and lead water pipes found in many old buildings—are the most likely causes of the large difference in inner-city white versus black lead burdens. Figures from the federal Centers for Disease Control do show a roughly 20 percent decrease in inner-city black lead levels over the past decade while the change for inner-city whites is considerably smaller. The CDC has concluded that the decrease for blacks is due to gasoline-lead restrictions, but this conclusion is not supported by the CDC's own data on inner-city whites. Improved housing (which may be as simple as painting over old lead paint) of inner-city blacks is a more plausible, though unproved, explanation.

Vitamin C is quite effective, at doses of over a gram a day, in keeping lead and other heavy metals in solution in the bloodstream so they can be excreted in the urine rather than being deposited in the bones and brain. Distributing vitamin C to all inner-city schoolchildren would be effective whatever the real source of lead and would be far more cost-effective than the present approach of restricting lead in gasoline.

Vitamin C and EDTA (a powerful chelating agent) make a potent combination that is much more effective than EDTA alone in removing lead from the brain. Those who have already been harmed by exposure to high lead levels can be effectively treated for it. (*CAUTION: EDTA* should be administered only by a physician experienced in its use.) Although the government may never adopt the nutritional approach of preventing lead accumulation with vitamin C, this is something you can do for yourself!

Control of automobile hydrocarbon emissions is another example of a regulatory disaster. Again, the costs are immense and the pollution problem is not solved. A recent study found that the largest potentially controllable source of hydrocarbons in Los Angeles basin is *not* cars but asphalt road paving and patching! The Environmental Protection Agency does not even control this source of hydrocarbons. It would cost less overall to use more-expensive concrete paving or epoxy composition patches to reduce hydrocarbons than to try to control automobile emissions or other sources. Present EPA standards require that hydrocarbons emitted by autos be less than those arising from a typical suburban lawn or even those produced by a typical cow in digestion!

EPA acceptable ozone levels are exceeded in many places that do not have an air pollution problem—for example, the top of Mt. Whitney, where the ozone is created by solar ultraviolet radiation. Another example: during airline flights, exposure to ozone can be hazardous, especially to persons with pulmonary problems such as emphysema. At lower altitudes, high levels of ozone can be caused by the interaction of ultraviolet radiation with hydrocarbons produced by plants. Indeed, Los Angeles could not meet the EPA's ambient air standards even if all use of fossil fuels were prohibited; the destruction of most of its plant life would also be required. Must we destroy the environment to protect it?

The EPA's automotive carbon-monoxide standards cost a great deal of gasoline, money, and performance, but they help only a very few inner-city people who have serious (generally smoking-induced) lung diseases, particularly those who continue to overload themselves with carbon monoxide by further smoking. These stringent carbon-monoxide standards also benefit some vehicular tunnel guards who work in a few of the older, poorly ventilated tunnels. Thus, billions of dollars are spent every year to subsidize the largely voluntary health problems (the risks to the lungs of smoking have been known for decades) of a relatively few people.

Pollution controls, of course, have more to do with political considerations than with science—that is, what people

(Continued on p. 73)

Illustration by Rick Reason

Gunning for Rights

BY PATRICK COX

Don B. Kates, Jr., is one of today's most successful and authoritative critics of gun control and its supposed role in reducing crime. Even *Quill*, the journal of Sigma Delta Chi, a professional society of journalists, recognizes him as the most successful author on the subject.

His first book—*Restricting Handguns: The Liberal Skeptics Speak Out*, published in 1979—is still making waves. The book contained work by well-known liberal activists and academics, such as Mark Benenson, general counsel for Amnesty International; Kenneth Chotiner, vice-president of the ACLU of Southern California; and ex-Senator Frank Church. Kates now has another book under way, *Firearms and Violence* (forthcoming from the Pacific Institute for Public Policy Research). So who *is* this guy?

He is not the stereotypical anti-gun-control activist and would certainly not fit the image of the redneck, reactionary gun-freak conjured up by liberals. In fact, Kates has sterling liberal credentials. In the early '60s, he was a volunteer for the Law Students Civil Rights Research Council in the South. There, he met the famous left-liberal attorney William Kunstler and served as his law clerk. Mostly in North Carolina, Kates handled cases like the defense of a black woman fired for taking part in a civil-rights demonstration. And even before he graduated from Yale Law School, he had drafted legislation that was enacted as part of the Voting Rights Act of 1965.

After graduating, Kates went to work for a group of California's most liberal legislators. He also worked for California Rural Legal Assistance. There he handled federal civil-rights litigation, specializing in police-misconduct cases.

In 1967, Kates became the youngest attorney ever to win a case before the US Supreme Court. The case established that when denied constitutional rights, a person does not have to run the bureaucracy's entire complaint gauntlet before appealing the incident to the courts. Later, in California, Kates won a case that guaranteed Mexican-Americans access to Spanish-language ballots. In 1970, the National Legal Aid and Defender Association gave Kates an award for being the country's best "poverty lawyer."

Kates started working in 1973 as a legal advisor to a number of police agencies. He admits that it was quite a change from his work in police-misconduct cases but sees no contradiction in defending the rights of a cop or someone who is victimized by a cop. Then in 1976, St. Louis University asked Kates to join its faculty as an associate law professor. It was

DON B. KATES, JR.

while teaching constitutional and criminal law and criminology, that Kates started researching the handgun-ownership controversy.

For three years, Kates took a long, hard look at the role of guns in criminal violence. He was interested in the issue because liberal fellow-travelers were willing to sacrifice civil liberties for their ends. "There had been a lot of result-oriented work by people who wanted to get rid of firearms and some on the other side, too," Kates says, "but firearms owners don't tend to be particularly literate or represented. It ranged from highly partisan to downright shoddy, and many perspectives were simply overlooked."

The biggest hole in the anti-gun argument, Kates says, is the assumption that would-be assailants will switch to knives if handguns are banned. The anti-gun literature says that handguns are five times as deadly as knives, so a ban would lower the attack death rate. Kates found, though, that guns are actually about two-and-a-half times as dangerous as knives and, even so, assailants' second weapon of choice often is a shotgun or rifle, both of which are much deadlier than handguns. This raises the possibility that a handgun ban would actually *increase* attack-related deaths.

"No dispassionate scholar doing homework could ignore this issue," says Kates, "but hundreds of articles were written arguing to ban handguns, and it was never mentioned." So Kates published a number of articles in journals and, eventually, his first book on the subject.

So meticulous a researcher is Kates that he rarely makes an unqualified statement about anything he has not spent a great deal of time studying—which is why his work on gun control and registration has held up so well. When Kates started exploring the subject, he didn't know what he would find. Now that he knows, Kates does not fear criticism from liberal friends who abhor the notion that people should be allowed to carry handguns for self-protection.

In person, Kates struck me as the archetypal 1960s' civil-rights activist. A full beard and a passion for freedom make him look the part. But from his swagger and gravelly voice, one easily imagines him trapping caribou and grizzly in the old Northwest Territory. Perhaps the two roles are not mutually exclusive, but in the modern world he is occupied tracking down shoddy research and fallacious arguments on the subject of handguns. Only months ago, Kates successfully challenged in court San Francisco's handgun ban.

Besides being a partner of a law firm that fights gun control nationwide, Kates is editing *Firearms and Violence.* The book "will destroy, once and for all, the phony claims of those who want to take handguns away from honest, peace-loving people," says Kates. "It will expose the phony scholarship that has passed as authoritative and return the right of gun ownership to what it should be—a civil liberty."

Patrick Cox is a free-lance writer and a frequent columnist for USA Today.

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arts & letters

MOVIES

Reviewed by John Hospers

The Year of Living Dangerously

It would have been pleasant to report on the excellence of the new Australian film *The Year of Living Dangerously*, which recreates events in Indonesia in 1965 that the world little knows or has long since forgotten. It was, after all, one of the few times in which a Communist coup to overthrow a dictator (Sukarno) was itself averted—in this case, with bloodshed inflicted by the Communists leading to an anti-Communist bloodbath conducted by the regime of the current dictator, Suharto.

When a writer-director is anti-intellectual, he risks sabotaging his own enterprise as he deals with themes that demand intellectual clarification. Peter Weir is great on atmosphere, which he delivers aplenty, but his film—satisfactory enough in the delineation of character and personal relationships—founders completely in any attempt to communicate to us what the revolution was all about.

THE YEAR OF LIVING DANGEROUSLY: **Australian journalist Guy Hamilton (Mel Gibson) struggles to penetrate the murky events of Indonesia's 1965 civil war.**

The main character is not really the reporter (Mel Gibson) or the girl he falls in love with (Sigourney Weaver, a Jane Fonda-look-alike) but a dwarf (a male part played by a female, Linda Hunt) who, we are led to believe, has the true interests of Indonesia at heart. But we never learn where his real sympathies lie in the cataclysmic events of that time. At any rate, he expresses no opposition to the display of banners reading, "Sukarno, Feed Your People."

It is obvious that the leader himself cannot feed the hundred million people of Indonesia. All he can do is to provide the conditions in which they can feed themselves. As an advocate of a centralized economy, he failed to do so; hence the coup against him. This elementary economic point would have cleared up a great deal in the film, but it was apparently never grasped by the reporter nor by his fiancée nor by the supposedly perceptive dwarf nor apparently by the writer-director of the film. Not one of them suggests any alternative to centralized control of the economy as a solution to Indonesia's poverty.

Gibson's native employee in the film poses the question nicely: "Am I stupid?" he asks. "No, you're smart," Gibson responds. "Well, if I'm smart, why is it that I'm always poor, while in your country lots of stupid people are rich?" The answer is not difficult. In the West, enterprising people can (still, more or less) rise from poverty and become rich and even pass on those riches to their descendants who may be stupid. That's a part of their freedom. But in the film we are left with only the question, and none of the characters volunteers—or even apparently knows—the answer. Without that answer, the events that shook Indonesia in 1965, on which the film is supposed to enlighten us, are left quite in the dark.

Siberiade

Made in 1979, the Russian 3¼-hour epic *Siberiade* has at last reached American theaters. It is the story of a small village in Siberia from 1907 almost to the present. Because of the long span of history covered, the characters keep changing, and no sooner have we come to familiarize ourselves with one set of them than, in the next section, we confront their children or grandchildren. For this reason the film is episodic and sometimes difficult to follow. First there is a prewar episode, then World War I and the Revolution, followed by the civil war; then the 1930s; then World War II; then the 1960s. The changes wrought by war and technology on the Siberian hinterland are done with considerable skill, and the discovery of oil beneath the little Siberian village changes the lives of all of them and brings the film to a climax in a gigantic oil fire.

There are some touching scenes, as when the father (who was a little boy in the earliest episode) takes his little son on a scouting mission into a particularly dangerous stretch of swamp called Devil's Patch (which later turns out to be floating on oil) and the father, a dedicated Communist, exposes them both to great danger rather than tell the authorities a lie by only pretending to have gone there. The same boy, after living through the horrors of World War II, returns to the village as an engineer in the government's oil discovery program. Every episode ends with a star seen through tall trees, the symbol of the father's dream for the development of Siberia from a set of primitive settlements to a technological giant. The human cost of this government operation in human lives (such as Siberian labor camps) is never hinted at, but one does get a sense of the enormity of the land and the prodigiousness of its natural resources.

All this, of course, is history seen from the Soviet point of view. The White armies are automatic villains and the Red armies heroes and saviors. Despite this coloration of history, the propaganda aspect of the film is minimal. Indeed, there are a few digs at collectivism: when Siberia is finally collectivized in the 1920s, and the villagers are told that there is to be no more private farming, one villager asks the Soviet official, "Can we still go into the woods and gather berries and mushrooms?" and he answers, "For the moment, yes." "Then at least we won't starve," retorts the villager.

Indeed, the film is comparatively relaxed on points of Soviet dogma, reflecting the attitude of several Siberians I spoke to when I was there, who said, "We are 4,000 miles from Moscow. We don't take the party line quite as seriously out here." The film pays lip service to it but not much more.

John Hospers is the author of Understanding the Arts. *He teaches philosophy at the University of Southern California.*

THEATER

Sometimes in a Great Nation

By David Brudnoy

The latest word from Broadway is, give or take the hyperbole, "Eek!" Suddenly the supposedly recession-proof live entertainment industry of the Great White Way is in a miserable slump. Long-running shows, like *The Best Little Whorehouse in Texas* and *Sophisticated Ladies*, have closed, having run their course, and the product that has come along to replace those long-running warhorses has been thin much of the time.

There are exceptions, of course, like *Dreamgirls*, which, month after month, plays to standing room only at ticket prices hovering around $50 per. *Cats*, recently brought to America from London, has sold $8 million worth of tickets, enough to keep it running in Gotham for a decade and a half. At that rate, we may all be dead in the provinces before the show reaches beyond New York.

Increasingly, the shows that succeed in New York and around the country in road-show productions are gargantuan, splashy items—occasionally something new and instantly a super-event, like the aforementioned *Dreamgirls*, more often something that has been around so long that it has taken on the aura of a classic (as I write this, for example, Richard Kiley is doing his nine-zillionth performance of *Man of La Mancha*). What seems not to make it in New York, and hence what isn't going to be around long enough to travel throughout America, as *Evita* is finally traveling, is the kind of show that hasn't much splash about it, that depends for most of its appeal on good writing and intimate situations and the development of character.

Two such shows originated outside New York, one nurtured over a very long time indeed, the other going the more standard route; and one has managed to remain alive in the big city while the other closed within three days of its opening. You may see *Foxfire* if you get to Manhattan or if—when—it begins to make itself felt in other cities, but chances are you'll never see *Almost an Eagle*. That the former survived and the latter did not is a puzzlement to me, since both partake, or partook, of similar ingredients.

Foxfire, by Susan Cooper and Hume Cronyn, originated from the series of Foxfire books published by Doubleday and made up of the recollections of Appalachian mountaineers as gathered by high school kids. After a long period being honed, refined, and concentrated, *Foxfire* emerged as one story—that of a widow lady who has not quite accepted her widowhood and of her physical decline, combined with the story of her guitar-strummin' son who has succeeded as a Country & Western entertainer.

Annie Nations is a tough old bird, resourceful and self-reliant and quite content to have crotchety but somewhat pointed conversations with Hector, who we discover has been dead for five years. Their son comes by to visit since he's giving a concert nearby, and a real estate man comes by to try once more to induce Annie to sell her mountain-top property.

The narrative weaves between the present and the past. We see what stuff the elder Nationses are made of and, for once in a story that deals with generational differences, what warmth and unity there is between mother and son. The show is *comforting*, and it tells of a corner of a great nation in an unassuming way. It has as much of the chic about it as an apple pie. It seems to have taken hold in New York and to have built an audience.

Not so *Almost an Eagle*, about the leader of a four-boy Boy Scout troup in modern-day Iowa. The colonel, as their leader is called because of his days in the Marines, once headed a troop that really mattered. He is into the bottle now, not too secretly, and hasn't done as much leading as cajoling. His four scouts include the straight arrow, the wise-acre who's much in need of some paternal guidance, the fatty, and the little kid who has no more discipline than a pup. Nothing much happens—happened—in *Almost an Eagle* except an abortive Memorial Day celebration and the fallout therefrom, but the writing presented us with believable youngsters and with a grizzled veteran who yet retained a touch of his one-time élan.

Eagle touched another small corner of America, not unkindly, not unsympathetically, but with a raw-edged honesty to it that evidently condemned it to the junkheap. Frank Rich of the *New York Times*, whose review did as much as anything to kill *Eagle*, wrote of it that it is "also, I guess, an anthem to old-time patriotism, but the lame gags about the boys' adolescent sexuality and alimentary difficulties always come ahead of duty." Somehow the feeling is conveyed in Mr. Rich's review that the old-time patriotism's a crock.

Maybe so, but I think it had much more to offer than the New York reception of it would suggest. Like *Foxfire*, it pretended little and aimed at a gentle, kindly look at a segment of the American people.

Can there be something about a show like that that can't stand the onslaughts of Manhattan sophisticates and therefore can't get up the steam to carry such items out to the rest of the country? It would make a nice little conspiratorial essay if that were the case, but *On Golden Pond* did nicely enough even before the movie, and *Foxfire* is holding steady. Perhaps New York has room for just one of these things in any season. In any case, no grand theorizing about any of this, just a notice to alert you to the existence of *Foxfire* and to utter a soft RIP for *Almost an Eagle*.

Contributing Editor David Brudnoy is arts critic for WNEV-TV (CBS) News and WRKO-AM (ABC) in Boston. He hosts a nightly talk program on WRKO, writes regularly for the Boston Herald, *and syndicates a thrice-weekly newspaper column.*

BOOKS

The Pedigree of Preservationists

Progress and Privilege: America in the Age of Environmentalism
By William Tucker
Garden City: Anchor Press/Doubleday. 1982. 314 pp. $17.95.

Reviewed by David M. Stewart

When a chapter of William Tucker's *Progress and Privilege* appeared in *Harper's* last year, charging that "Wildernesses . . . are essentially parks for the upper middle class," the response was—predictably—special pleading. "The urban poor could, if they were so moved, buy all the [backpacking] equipment that is needed for the price of a boom box and a few cassettes," simpered one reader. Tucker struck a nerve.

Tucker seeks, in his book, "to save environmentalism from the environmentalists . . . to understand environmentalism at its social roots, and how it has been related to privilege . . . [and] to reaffirm technology." He begins by asking,

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"What eventually sours people on progress?"

In part one of the book, "Environmentalism: The Conservatism of the Liberals," Tucker answers: *privilege*, in two senses. First, many people reach a degree of affluence that makes them "ripe for the idea that 'things have gone far enough,' and that it is time to start 'preserving what we have,' rather than 'always trying to accumulate more.' " Second, these (now upper-middle-class) people find their status threatened, because "*too many people [are] becoming middle class*," and those people are moving into houses built over the beautiful field next door. Suddenly the suburbs lose their cachet and become "ticky-tacky"—"with a strong suggestion that the people who lived in them were 'ticky-tacky' too." In response, affluent people align themselves with what passes for an American aristocracy, "old wealth," in the hope that "if further progress will only lead to disaster, then perhaps the status quo will harden and remain forever."

Part two, "Main Currents in Environmentalist Thought," ranges over the sources of this hope. The provocative chapter on wilderness forms the core of Tucker's argument. Preservationists have evolved a doctrine of wilderness, holding that "land and wildlife can only be conserved by leaving them in their natural state, consciously eliminating all human presence." Today, environmentalism *is* preservationism, and wilderness is the central icon of the environmentalist religion.

"Wildernesses are...areas in which *evidence of human activity is excluded.*" Popular recreation—that is, use by the lower classes—is to be discouraged. Access is to be rationed by inconvenience: no tables, benches, access roads, or designated scenic routes; no off-road vehicles; above all, don't use anything not carried in your backpack.

All wilderness resource use is to be prohibited as part of an across-the-board no-growth philosophy. Perhaps this is best demonstrated by reference to something Tucker doesn't discuss: the use of extraterrestrial resources, far beyond any American wilderness. Astronomer William Hartmann was asked to write on the subject for *Progress As If Survival Mattered*, a book brought out by Friends of the Earth, a prominent environmental group. Hartmann's chapter was rejected.

"To one of the editors," he wrote in the September 1982 *Smithsonian*, "the idea of going after materials and energy in space, even if it would reduce environmental pressures on Earth, sounded too much like what he called a 'disposable Earth policy': rip through what we've got here and then start despoiling the rest of the universe. The usual solution suggested is that we should reduce consumption and learn to live within the limits of the finite Earth." That sounds great—if one is both ignorant of economics and living well to begin with

William Tucker

(as the immense majority of self-styled environmentalists are). Try telling it to the urban kid with the boom box, whose future is being stifled by, among other things, the 20th-century equivalent of enclosures.

Tucker also examines in part two the problems of overpopulation (solved before we knew it existed), politicized ecology, endangered species (reduced to a rationalization for blocking development anywhere), and the prophetic pretensions of environmentalist computer jockeys (the Club of Rome used "a mathematical model of the world's future that was *programmed for disaster*"). Especially enjoyable and illuminating is the trouncing given the new school of entropic ecological eschatology.

Part three, "The Revolt Against Science," traces the pedigree of today's antitechnological environmentalists. Throughout the past, aristocratic opinion has opposed progress. In many cases this is the result of excessive caution (brought about by "experts" who said, for example, that travel at 20 miles per hour would burst human blood vessels). But this caution often simply masks a presumption against mass progress and mobility. Tucker shows how today's intellectual aristocrats have used bureaucracy as well as pseudoscience to block progress, using as an example recent efforts to prevent experimentation with recombinant DNA.

Tucker is an unabashed advocate of the market. He is not, however, an *uncompromising* advocate. He never even considers privatization and full protection of property rights in the environment; rather, he advocates "the Conservation ethic as it was originally intended...the restrained hand of an active government playing a moderate role in the 'wise use of resources' "—the concept of stewardship.

Tellingly, though, Tucker's example of wise stewardship is *not* an instance of "active government" but of cooperation between *private* parties: the Rainey Wildlife Sanctuary, about which John Baden and Richard Stroup have written in REASON ("Saving the Wilderness: A Radical Proposal," July 1981). The sanctuary earns substantial royalties for its owner, the National Audubon Society, from several gas wells in the midst of the wildlife that it also takes pains to protect. Tucker asserts that if "wildlife preservation and resource development [can be] made compatible" at Rainey, "it can certainly be done in the great Federal wilderness areas as well."

But Baden and Stroup's point is that precisely and only private ownership makes such compatibility possible; political arrangements cannot do it. In their words: "Under [conditions of private ownership of wilderness], as opposed to public ownership, the [landowning] wilderness groups would be forced by self-interest to consider the opportunity costs of total nondevelopment. Further, rather than resolutely opposing the extraction of any commercially valuable resources from the land, they would focus on obtaining these resources while maintaining to the optimum degree the wilderness character of the area. Different incentives lead to different behavior." Better, contra Tucker, to trust the invisible hand than the "restrained hand."

Still, *Progress and Privilege* is a joy to read. It marshals a comprehensive battery of facts and arguments against the ideology and pseudoscience of environmentalist orthodoxy, and Tucker's prose is clear, succinct, and brisk. Environmentalism has put politicians, opinion

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leaders, and the public at large in the grips of a doomsday mentality and an economic and ecological stranglehold. Tucker does not show us the best way to escape that stranglehold. But he does give us an excellent account of its social and pseudoscientific sources and of the grounds for a guarded optimism for the future.

David M. Stewart is a free-lance writer and editor of a libertarian newsletter in southeast Michigan.

Great Expectations?

Encounters with the Future
By Marvin Cetron and Thomas O'Toole
New York: McGraw-Hill. 1982.
292 pp. $12.95.

Reviewed by Joseph Martino

At the outset of *Encounters with the Future,* Marvin Cetron and Thomas O'Toole state, "This book was written to offer the general reader a picture of the future. It derives from forecasts previously available only to the government, the executives of a handful of large corporations, and other highly specialized organizations." The authors have succeeded in presenting it for the general reader. It is free of jargon and is written clearly. It is also, however, completely devoid of any citations or references that might lead the reader to sources of additional information.

Are the authors qualified to tell us about the future? Cetron is president of Forecasting International, a Washington-based think tank, and is widely known in futurist circles. O'Toole is a national reporter for the *Washington Post.* Thus, even though there are no authorities on the future, the authors seem better qualified than average to say something about what is in store for us.

What do they foresee? They espy some wonders down the road. Widespread cable TV will bring some 30 channels of entertainment, news, and education into our homes and will reach about half of American households by 1990. There will be drugs for improving memory; for curing cancer, senility, schizophrenia, and gallstones; and for delaying the aging process. We will live in a cashless society, with electronic transactions verified by voice prints.

One thing free-market advocates may like is two-tiered minimum wage laws, with a lower tier for teenagers. There are some features they won't like, however. The government will hold successful antiaging drugs off the market for five years, to allow people time to get used to the idea. In the resource-short world of the future, the right to have children will be allocated just as oil will be rationed. And "slowly but surely we will get used to the idea that Big Brother knows everything about us."

The authors state explicitly that their forecasts do not reflect their own wishes and hopes. Instead, they are based on scientific analysis of trends and data, as they should be. All scientifically based forecasting, whether of population, the economy, the weather, or anything else, should be based on rational analysis of data. This means the forecaster uses some model of "how the world works" to transform data about the past into a forecast for the future. The forecaster's own wishes and hopes should not enter into the analysis. So the fact that free-market individualists won't like some of Cetron and O'Toole's projected future doesn't necessarily mean the authors themselves are opposed to freedom.

The right to have children will be allocated just as oil will be rationed.

Even so, it's not so simple. We can't judge the all-important data that Cetron and O'Toole used, because none are presented. We can't judge completely their model of "how the world works," because they don't present it in full. Nevertheless, they do give us enough hints to allow us to infer some features of their model. And those inferences are sufficient to ensure that many proponents of individual liberty will part company with the authors.

Consider their views on New York City. They discuss its problems in terms of technological obsolescence and decay of physical capital. But in this they confuse cause and effect. They don't ask *why* this obsolescence and decay ensued. They ignore the destructive effect of rent controls on the city's housing stock; the effect of municipal employee unions, with their high wages and low productivity, on the city's budget; and the way high taxes have driven business and industry, not to the Sunbelt, but to Connecticut and New Jersey.

The authors' explanation of the energy problems of the last decade is straight out of *Limits to Growth.* We have used up the world's energy, supplies are growing short, and we must somehow accommodate. But while it's true that we are using up our fuel supplies, the authors overlook the major reason for the energy problems: government meddling.

For instance, they assert that prior to the OPEC oil embargo, energy was "too cheap." This is the conventional wisdom of the "limits to growth" school. But "too cheap" compared to what? From 1934 to 1973, the price of oil in the United States was artificially raised by a cartel of oil-producing states, backed by the federal government, which limited the import of cheap Middle East oil. We actually used *too much* capital and labor to conserve this artificially expensive oil. We would now be better off had that capital and labor been invested in more-productive activities, instead of being substituted for energy.

The authors also refer to lines at the gas pumps as though these were inevitable outcomes of physical shortages. Again, they neglect the role of government-enforced price controls in keeping demand greater than supply, resulting in rationing via waiting lines.

The authors are also optimistic about the future of nuclear power, even though they admit that most utilities haven't the competence to run nuclear power plants. But again they show no recognition of the effects of government intervention. As was pointed out in an article in REASON in August 1980 ("Who Caused Three Mile Island?"), the government's preemption of the insurance and security role completely eliminated private insurance companies from the safety-monitoring and safety-training role they perform so well in other industries that have an even higher intrinsic risk of accidents than does the nuclear power industry (even though the consequences of those accidents might not be as great). Moreover, the government then proceeded to botch that role in the nuclear industry.

These examples could be multiplied. In short, those who won't accept Cetron and O'Toole's model of how the world

works probably won't accept the forecasts either, no matter how valid are the data about the past underlying these forecasts.

Most of the forecasts in the book are for the longer-term future. I have to admire the authors' audacity, however, in presenting a forecast of the 1982 election outcomes (aggregate, not in detail). They predicted that the Republicans would gain seats in the House and might even gain some in the Senate. As we now know, however, they *lost* 24 seats in the House and gained none in the Senate. The Republican losses were double those the Democrats suffered in the off-year election of 1978, under a Jimmy Carter already recognized as ineffectual. They were actually double the average first-midterm losses of the past four administrations.

This is only one forecast out of a large number; perhaps pointing out its failure is simply a cheap shot. Nevertheless, it's the only hard evidence we have. It, coupled with the authors' views of how the world works (a mixture of neo-Keynesianism and limits to growth) is sufficient cause to take the whole book with more than a single grain of salt.

Joseph Martino is senior research scientist at the Research Institute of the University of Dayton and technological forecasting editor of The Futurist.

The Stifling of Dissent In Public Schools

Compelling Belief
By Stephen Arons
New York: McGraw Hill. 1982.
228 pp. $19.95.

Reviewed by Robert Everhart

A school principal I know commented recently (quite bitterly, I might add) that administrative decisions in schools have become cumbersome and confounded because many must first be cleared by the district legal staff. He's right. So pervasive are the legal implications of management decisions that most states now require, for their prospective school executives, a course in "school law" wherein such matters as the rights of parents, students, and teachers are discussed. The most cursory review of the textbooks used in these courses illustrates well the effect that a rising tide of legal decisions has left on administrative practice.

If my friend believes he must check with his legal staff now, he should read Stephen Arons's book. Here the force of school law looms to rush over the breakwater and establish a new high-water mark—one that, if established, will forever overshadow those old, more mundane legal artifacts such as collective bargaining and due process in suspension issues. Arons's focus rises above matters of civil law and pushes ahead to the complex (but eminently more fascinating) matter of constitutional law. Indeed, riding on the crest of Arons's legal wave is the premise that public schooling, as presently constituted, may well be a process depriving untold thousands of families of their basic, First Amendment rights.

Arons, an attorney who teaches at the University of Massachusetts, has been interested in schooling and the First Amendment for over a decade. His seminal paper, "The Separation of School and State: Pierce Reconsidered," appeared in the *Harvard Educational Review* in 1976. It laid the legal foundation for the argument in the present book. Further legal buttressing is built into his chapter "The Manipulation of Consciousness: A First Amendment Critique of Schooling," found in my book, *The Public School Monopoly* (Ballinger, 1982). So the book under review here has a history to it and should be seen as an extension of arguments developed in the above-mentioned and other works.

Arons believes (and this certainly is not a novel observation) that the public school system evidences relatively little variance in terms of what is taught or how it is taught. Yet the conventional wisdom of American schooling would have us believe that the practices present in our public schools are the result of a "marketplace of ideas"—a consensus that emerges from competing viewpoints and thus is representative of democratic processes. The somewhat standard fare found in our schools, proponents usually argue, is then simply the manifestation of the type of schooling desired in a free society.

Rather than being the bedrock of democratic decisionmaking, schools, Arons claims, are reproductive of majoritarian interests—interests that leave little room for questioning and plurality. To the degree that state-mandated schooling provides so little diversity, students are not encouraged to conceive of dissenting ideas or to perceive of contradictions between their own self-interest and that of a majoritarian-sustained ideological orthodoxy. The consequence of such standardization, which is structural and cultural in nature, is as damaging as might occur if schools intentionally taught a narrow, state-directed curriculum, as in most totalitarian states.

More critical, however, the restricted manner in which ideas and beliefs become formed in schools can, according to Arons, be seen to violate the guarantees of the First Amendment. While most legal decisions would not reflect such a position, Arons argues that the First Amendment has been narrowly interpreted to include only the *exercise* of speech and ideas. Citing the work of such legal scholars as Thomas Emerson and Alexander Meiklejohn, Arons claims that free expression is not possible without an important precondition—freedom in the *formation* of beliefs and opinions. To the extent that most public schooling severely curtails this formative process, serious First Amendment concerns are manifest.

Arons addresses these complex matters (discussed explicitly at the end of the book) through a review of factual "case history" material, although the use of

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this material is largely for hortatory purposes. The first case reviewed in the book is that of a protracted attempt to ban certain curricula from the Warsaw, Indiana, school system. The second case chronicles attempts by the educational bureaucracy in Amherst, Massachusetts, to discourage a family from instituting a "home education" program. A final scenario is devoted to the conflicts that developed between the state of Kentucky and the Owensboro Christian Academy over the matter of the state regulation of private schools.

What draws these three cases together is the "corrosive, irreconcilable, and proliferating conflict between government and family." The marketplace-of-ideas theory would have it that such conflict can be minimized through the free exchange of ideas and via an accommodating school administration. Arons disagrees and notes that, in trying to smooth over conflict, public schools suppress minority beliefs and therein raise First Amendment concerns. Conflict will always be present in a state educational system within a democracy because schooling can never be neutral, will always reflect some system of values, and will engender resistance on the part of those who disagree with the dominant value system.

At times, Arons appears to romanticize the efforts of the dissenters he describes (especially the home-school advocates). Yet he makes clear that there is no right or wrong, that *all* schooling is a form of value inculcation and that there is little difference between the book "censors" in Warsaw and the book "selectors" who sit on statewide textbook selection committees. He chides groups such as the ACLU who come to the rescue of schools when some individuals attempt to censor books, yet notes that those same attorneys who are so ready to save the schools from bigots fail to see that the "socialization by persuasion" that occurs in public education is as effective and patently offensive as the "socialization by coercion" sponsored by many fanatics.

This book raises many important issues, though I did find some of them overstated. More bothersome perhaps is the excessive rhetoric and minimum documentation (the book has *no* footnotes or references) pertinent to many points raised. The careful scholarship present in Arons's earlier work is not as evident here, and the author relies more on claims than on well-developed arguments. The organization of the book is a bit confusing as well—18 chapters in a 222-page book comes out to 12 pages a chapter—a factor giving the book a somewhat choppy style.

Arons does not believe that the courts demonstrate any inclination to reinterpret the First Amendment to cover a "belief-formation" aspect, although he sees this stance as fundamental to his case. Yet even if the courts were to be so predisposed, I am concerned about the consequences that might ensue should the state, as Arons argues, remove itself from schooling except in those cases where "compelling state interest exists." Arons's conception of "compelling state interest" is so minimal as to basically remove government from any authority over schooling. But is this direction commendable? Will an absence of all government authority over schooling necessarily lead to freedom? Or will it merely result in control under different auspices, the consequences of which may be more severe for people than occurred when "government" was involved? Certainly, more discussion of these issues is warranted. These are matters of considerable significance, not to be swept away by appeals to constitutional law alone.

In sum, Arons's book is provocative and stimulating, although at times more an article of faith than a well-conceived argument. Despite some criticisms, I plan to give a copy of the book to my friend, the principal; some good and valuable discussions will take place.

Robert B. Everhart is associate professor of education and sociology at the University of California, Santa Barbara, and editor of The Public School Monopoly.

Government the Problem, Not the Panacea

The State Against Blacks
By Walter E. Williams
New York: New Press/McGraw-Hill. 1982. 183 pp. $14.95.

Reviewed by Susan Love Brown

There is a mythology that circulates concerning the welfare of black people in America: (1) black people have no resources; (2) black people need special help to overcome past injustices and present disadvantages; and (3) the best kind of help comes from the government in the form of handouts and legislation. Acting upon the above set of assumptions, many well-meaning people (who make it their business to cure social ills) have condemned many black people to lives of frustration and hopelessness.

Being down and out in America is often an iatrogenic disease—one caused by the practitioners who mean to cure it. The only relief we can expect from such a situation is by acquiring knowledge of what has gone wrong. *The State Against Blacks* by Walter E. Williams is a primer on the ways in which the government prevents black people from making economic progress in America. The book examines the consequences of minimum-

Walter E. Williams

wage laws, occupational and licensing laws, and the regulation of interstate commerce, with special emphasis on trucking, the railroad industry, and the taxi business. Williams explains why so much of the conventional wisdom regarding racial discrimination only obscures the truth, and he introduces empirical evidence to analyze some of the common beliefs about racism and economic progress.

Williams's analysis brings to light some interesting details. For example, the median income of blacks is only 60 percent that of whites. Strangely enough, the more education a black man has, the greater the disparity between his income and that of a white man of comparable education is likely to be. This has generally been attributed to racial discrimination. Black professional women, however, earn an income that is on average 125 percent that earned by white professional women. Clearly, discrimination cannot explain why black women earn more than white ones.

Williams also looks at the discriminatory effects of professional licensing laws. In one illustration, he notes that licensing laws in Missouri require that to become a beautician, applicants must

take an examination consisting of a written portion and a performance portion. Only 3 percent of the successful exam takers are black, while some 21 percent of those failing the exam are black. Although the written portion of the exam is unrelated to job performance, it provides systematic exclusion of beauticians by race—blacks score 10 points less than whites of comparable education on the written exam. However, there is no significant statistical difference in success or failure rates of blacks and whites on the performance part of the exam. Thus, the law that requires a written exam keeps many blacks out of a profession at which they can be competent.

Licensing laws, coupled with equal-pay-for-equal-work measures and similar actions supported by racist unions (such as the American Federation of Labor under Samuel Gompers), have also eliminated blacks from many types of craftwork and prevented them from gaining job experience in others. Black craftsmen used to dominate many professions such as carpentry, building, and stonecutting. They also constituted a large portion of the railroad employees in the country even during times when racial hostility was greater than it is now. Restrictive laws regulating these professions have played a decisive role in cur-

Book Hints

a selective mention of books received for review

With hearty promises of a healthier economy and smaller budget deficits, the Reagan administration endorsed supply-side economics. Whether or not the administration has practiced what it preached, supply-side economics remains the focus of intense dispute. *Supply-Side Economics: A Critical Appraisal* (Frederick, Md.: University Publications of America, 1982, 488 pp., $27.50), edited by Richard Fink, assembles a variety of theoretical perspectives on the subject.

Included in the defense of supply-side economics are pieces by several REASON contributors: Arthur Laffer, Paul Craig Roberts, George Gilder, and Bruce Bartlett. Other REASON contributors take the other side, Thomas Hazlett looking critically at supply-side economics from a staunch free-market position, and David Henderson criticizing that analysis and concluding that the best arguments for tax reduction do not follow from supply-side economics at all.

Another tome of economic theory that might interest our readers is *Method, Process, and Austrian Economics: Essays in Honor of Ludwig von Mises* (Lexington, Mass.: Lexington Books, 1982, 262 pp., $27.95), edited by Israel Kirzner. Equally provocative is *Freedom and Reform: Essays in Economics and Social Philosophy*, by Frank Knight, with a foreword by James Buchanan (Indianapolis: Liberty Press, 1982, 484 pp., $14/$6.50). First published in 1947, the series of essays reflects Knight's view that there are both ethical and economic aspects to every human action.

The Underground Economy in the United States and Abroad (Lexington, Mass.: Lexington Books, 1982, 340 pp., $29.95), by Vito Tanzi, documents underground economic activity in a number of countries and investigates the implications of the subterranean economy for employment, GNP, and tax revenues. Another case study, narrow in focus but rich in its significance, is presented in *Labor and Property Rights in California Agriculture: An Economic Analysis of the CALRA* (College Station: Texas A&M University Press, 1982, 116 pp., $18.50), by Rex Cottle, Hugh Macaulay, and Bruce Yandle.

The authors argue that the 1975 California Agricultural Labor Relations Act produced a fundamental shift of property rights from the owners to the workers of the land, allowing an unprecedented concentration of power for the United Farm Workers union. This shift in power, moreover, has led to higher commodity prices, lower agricultural wages, altered production techniques, and lower land values.

Three public policy issues having received considerable media attention are analyzed in *The Strategic Petroleum Reserve: Planning, Implementation, and Analysis* (Westport, Conn.: Greenwood Press, 1982, 262 pp., $29.95), by David Leo Weimer, a contributor to the Reason Foundation's *Instead of Regulation*; in *Concentration, Mergers, and Public Policy* (New York: MacMillan, 1982, 425 pp., $29.95), by Yale Brozen; and in *Private Options: Tools and Concepts for Land Conservation* (Covela, Calif.: Island Press, 1982, 292 pp., $25.00), edited by the Montana Land Reliance and the Land Trust Exchange. *Private Options* presents expertise from more than 30 authorities in private land conservation who have determined that state and federal statutes will not protect the family farm, open spaces, or other natural resource land and that private options must be pursued.

Apparently, many Americans are economic illiterates. In a recent survey of 15,000 junior high school students, only 25 percent could correctly identify a simple description of capitalism and only 50 percent could differentiate between the obvious characteristics of the US and Soviet economies. *Economic Education: Investing in the Future* (Knoxville: University of Tennessee Press, 1982, 93 pp., $9.95/$4.95), edited by William H. Peterson, attempts to correct this situation by presenting the case for economic education. If this sorry state of economic education is deemed by some to be the fault of public schools, Bonnie Schrieter's *The ABCs of Starting a Private School* (Palo Alto, Calif.: R&E Research Associates, 1982, 106 pp., $14.95) may prove useful.

A few other books deserve mention. *On Gold* (DeKalb, Ill.: Waterleaf Press, 1982, 431 pp., $24.00), edited by H. Alan Lipscomb and Donald Libey, examines the process of investing in gold, its pitfalls and potential. In *The Case for Gold* (Washington, D.C.: The Cato Institute, 1982, 227 pp., $8.95), Rep. Ron Paul and Lewis Lehrman argue for establishing a gold standard as a prerequisite to ensuring liberty and prosperity.

Since all that glitters is not gold, *Having Love Affairs* (Buffalo, N.Y.: Prometheus Books, 1982, 188 pp., $18.95) by Richard Taylor may provide other answers on how to brighten our lives. In addition to rejecting the notion that love affairs are immoral, the author suggests that such affairs can be valuable, meaningful, and fulfilling for some individuals.

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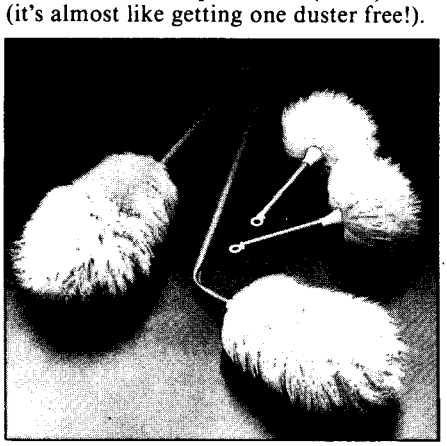
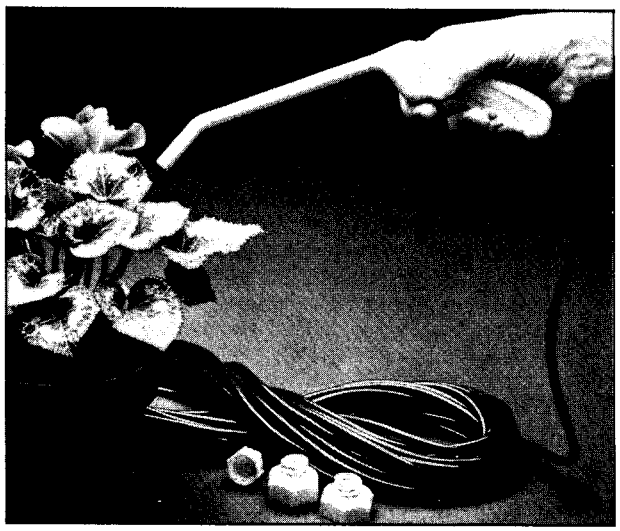
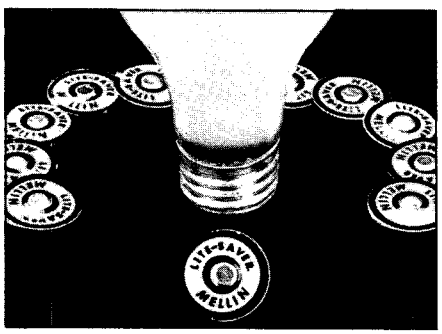


Watering Whiz



Do your houseplants run you ragged, back and forth, trip after trip, watering can in hand? There is an easier way: with an indoor garden hose you can water them all in a single trip. Think of the steps waiting to be saved! This 50′ (that is a lot of reach) vinyl hose comes complete with a set of four adaptors that readily attach to most indoor and outdoor faucets. From there you just take the water where you want it, an easy-control handle allows you to turn a splashless stream of water on and off as needed. This indoor hose comes with a snap-in misting attachment, so after you water the roots you can spray the foliage and wash away the dust accumulation that impairs a plant's health as well as its beauty. The indoor garden hose kit costs just **$11.00** ($1.95) #A681. It will make your watering as simple as turning on the faucet. Two for **$19.00** ($2.95) #A6812.

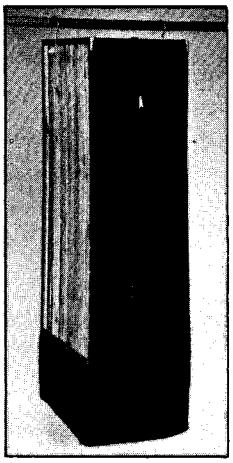


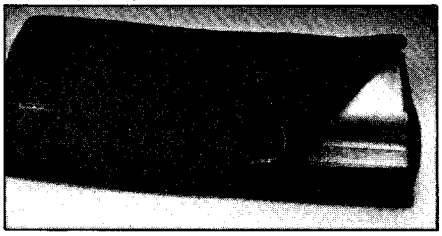
Lite Savers

If you're tired of climbing ladders and getting into precarious (often dangerous) positions to change an out of the way light bulb then you should know about Mellin Lite-Savers. Adhered to the base of any *one way* bulb the Lite-Savers can extend bulb life from 50 to 100 times! Just think of the money saved in light bulbs! Most bulbs have a rated life of 750 hours or 32 days if used continuously. With Lite Savers your bulbs will burn up to 75,000 hours or about eight years if used 24 hours a day. They're ideal for hallways, staircases, or anyplace where replacing light bulbs is a time consuming nuisance. You'll notice that Lite-Savers reduce light output so you may want to increase bulb wattage. They're safe, dependable and install quickly and easily with any one way bulb. The manufacturer offers a limited eight year warranty. We offer the Lite-Savers in a package of 6 for **$17.00** ($1.95) #A548, 12 for **$27.00** ($2.95) #A549 or 24 for **$49.00** ($3.95) #A642.

Cedar Storage

The fresh pungent smell of red cedar is as distasteful to moths as it is pleasant to humans, which is why cedar-lined closets and chests for generations have been the preferred way to protect clothes. Now someone has had the good sense to cross a cedar closet with a garment bag, making the advantage of cedar storage more available, more convenient and more affordable than ever before. The design incorporates real aromatic red cedar in a heavy military duck fabric with solid brass luggage corners and zippers. These garment bags hang right on your closet bar. Unlike moth balls, you don't have to worry about that telltale chemical odor and there is no need to dry clean or air clothes when taking them out of storage. The cedar storage units come in several sizes all in navy blue: for suits (not shown). 42″ x 20″ x 15″, at **$85.00** ($8.95) #A767; for long garments (shown right), 52″ x 20″ x 15″, at **$99.00** ($9.95) #A769; extra wide (not shown), 42″ x 20″ x 30″, at **$99.00** ($9.95) #A768. The suit and extra wide units can be used free standing as well as hanging. There is also an under-the-bed model (shown below), 7″ x 42″ x 20″ with six square feet of cedar, for **$59.00** ($5.95) #A766.





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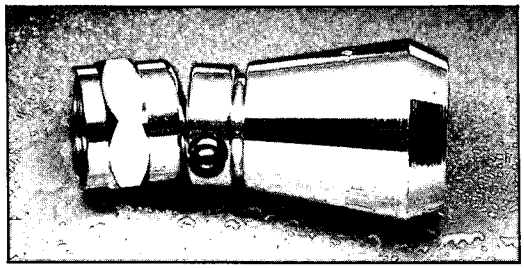

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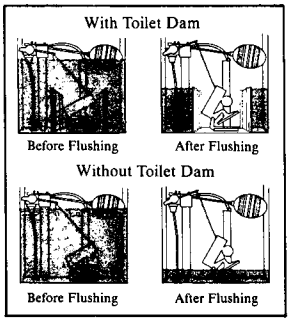
Savings In The Shower

This finely crafted shower head called the Deluxe Fuel Saver, cuts the use of water — hot water — in the shower from 5 or 8 to 2.45 gallons per minute. With the conventional shower head, the average family of four uses 300 to 400 gallons of water — much of it heated — everyday. According to U.S. Department of Energy figures, with the Deluxe Fuel Saver that same family uses 70% less water in the shower and realizes a savings of between $150 and $350 depending on the utility rates. The Deluxe Fuel Saver also offers a "trickle valve" that allows you to stop water flow while soaping up. Made of chrome-plated solid brass, the Deluxe Fuel Saver is accompanied by a one-year limited warranty. It installs easily over the standard ½" shower arm with pliers or a wrench — no plumber is needed. We offer the Con-Serv Deluxe Fuel Saver for **$14.00** ($2.95) #A800. Two for **$26.00** ($3.95) #A8002.

Toilet Sanity

A government study shows that 45% of the water used by the average American family gets flushed down the toilet. That is 90 gal. per day for the family of four. The conventional flush toilet uses 5 to 8 gal. of clean fresh water each flush, when 2.5 to 3 gal. is sufficient. What can we do about this insanity? Use toilet dams. Putting a dam in the tank saves ⅓ to ½ the flush without reducing the toilet's effectiveness. (It doesn't reduce the *pressure* of the flush, just the amount of water used.) Putting dams in all your toilets could cut your overall water use (and bill) up to 20%. For **$11.00** ($1.95) #A259, we can supply first-quality toilet dam units made of stainless steel and thermoplastic rubber. It comes with a 5-year limited warranty and requires no tools (or special effort) to install.



Convert-A-Bulb

How would you like to save more than $15 per fixture when you next change a 3-way lightbulb? Three-way bulbs have some major shortcomings. They are noticeably more expensive than regular bulbs, they come in a limited range of sizes and styles, and the high setting on a 3-way bulb gives you significantly less light than you are entitled to expect. A plain 100-watt bulb gives 1740 lumens of light; a 30-70-100 watt 3-way at the highest setting gives only 1285 lumens. The Convert-A-Bulb screws into your 3-way fixture and enables you to have 3-way action from a regular lightbulb. It accepts any standard base bulb from 7½ to 150 watts. Let's assume that you replace a 50-100-150 watt 3-way bulb with a regular 150-watt bulb. Because of the lumen differential between regular and 3-way bulbs, the medium setting gives the same amount of light that you formerly had at the high setting — providing a savings of 27 watts per hour. The regular bulb at medium setting will last 6 times its rated life of 750 hours. If you pay 7¢ per kwh for electricity the savings amount to $8.50. Plus, 3-way bulbs are usually rated at 1200 hours, so you would need four of them at $2.20 each, to outlast this one regular bulb, at $1.50. That is another $7.30 in savings for an overall windfall of $15.80. The Convert-A-Bulb is UL listed and available *exclusively from us.* Buy one for **$10.00** ($1.95) #A495, two for **$18.00** ($1.95) #A496 or three for **$26.00** ($2.95) #A497.

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tailing opportunities for blacks in these areas of work.

"The thesis of this book," says Williams, "is that black handicaps resulting from centuries of slavery, followed by years of gross denial of constitutional rights, have been reinforced by government laws. The government laws that have proven most devastating, for many blacks, are those that govern economic activity. The laws are not discriminatory in the sense that they are aimed specifically at blacks. But they are discriminatory in the sense that they deny full opportunity for the most disadvantaged Americans, among whom blacks are disproportionately represented."

As Williams points out in *The State Against Blacks*, the kind of economic parity that people seem to be searching for is more likely to occur in the marketplace than in the political arena. In the marketplace, poor people may not get *all* of what they want, but they are likely to get *some* of what they want: "If you go through the ghetto, you will see *some* nice cars, *some* nice clothing and *some* nice foods.... But you will see no nice public schools.... Cars, clothing and food are distributed by the market mechanism. Schools are distributed by the political mechanism."

The same laws that prevent blacks from making economic progress have a similar effect on other poor people, as well. That so many people continue to support such laws is the consequence either of ignorance or of malice. *The State Against Blacks* is a cogent weapon for fighting off political malice and an excellent tool for curing ignorance.

Susan Love Brown is a free-lance writer and a coauthor of The Incredible Bread Machine.

Diagnostic Success, Therapeutic Failure

Doctors' Dilemmas: Moral Conflict and Medical Care
By Samuel Gorovitz
New York: Macmillan. 1982.
225 pp. $14.95.

Reviewed by Loren Lomasky

For whom will you wait enduringly until called, undress when requested to do so, allow exploring hands to seek out each crevice of your body? Whose encouraging remarks will elevate your spirits; whose passing frown, dash them? And on whose judgment will you so rely that you will often allow it to supersede your own? A lover perhaps. Or, more likely, your physician.

Doctors ply a craft that is both inherently dramatic and charged with a level of intimacy unique among the professions. It is therefore unsurprising that medical ethics inherits some of the glamour that attaches to medicine itself. Surely no other area of applied philosophy has attracted so much attention from the general public. From the prospects of in vitro fertilization and abortion that precede birth to the lingering life-in-death of Karen Quinlan, the moral dilemmas that abound in medical practice have become as conspicuous on front pages as in learned journals.

Samuel Gorovitz has been in the forefront of the past decade's burgeoning concern for issues in medical ethics. His contributions to scholarship have been impressive, and equally so have been his efforts on behalf of the teaching of medical ethics within medical schools and the liberal arts curriculum. In *Doctors' Dilemmas* he tries to address a wide and variegated audience, urging through the consideration of a representative range of problems associated with medical practice that philosophy can offer genuine help to those on whom falls the burden of making hard choices.

Philosophy can help by clarifying the nature of the values at stake in a choice situation and by guiding one toward the general area within which maximum resolution of differences can be attained. Philosophical analysis will not by itself uniquely determine a solution for each moral dilemma, Gorovitz admits, but it is nonetheless a significant resource for the decisionmaker. "I am willing to respect it for what it can do instead of lamenting what it cannot."

His success in demonstrating the achievements of philosophical reflection is, however, mixed. Gorovitz does an able job of spelling out the nature of moral problems that emerge in medical practice. And he shows how they derive from the clash of values each of which merits respect but which cannot be jointly realized in a recalcitrant world.

Delineating what the problems are is one thing, though; moving them toward resolution, another. Gorovitz's success as a diagnostician is juxtaposed with frequent failures as a therapist. The positive arguments he offers more often than not disappoint. One example is his discussion of abortion, where he argues that the attainment of sentience by the fetus is a morally crucial line of demarcation. "Surely the concept of a person involves in some fundamental way the capacity for sentience," he writes, and goes on to conclude that aborting a presentient embryo cannot be considered the killing of a human person.

One's guard ought to be up when a philosopher prefaces a claim with *surely*. At least it ought to be up here. For if sentience is a necessary condition for personhood, then someone even *temporarily* comatose is not a person and can be dispatched with impunity! Gorovitz entirely omits consideration of this rather obvious objection to his suggested criterion.

No useful response is liable to be forthcoming, though. Were he to maintain that those temporarily comatose have the potential to attain to sentience and will usually do so in the course of time, he would be saying something true. But it is a truth that also characterizes most zygotes. If *one* enjoys a right to life as a potentially sentient being, so does the *other*. Moreover, if mere sentience is morally crucial in this context, must we not recognize a right to life in puppies or even earthworms? These sorts of difficulties are commonly noted in the philosophical literature on abortion; it is mysterious why Gorovitz is oblivious to them here.

Why are these and other arguments presented in so conspicuously vulnerable a state of disrepair? An answer would be more easily forthcoming had Gorovitz not previously demonstrated that he is a competent philosopher. In other contexts he has exhibited a markedly more professional standard of argument. I suspect that it is precisely because he wants to reach an audience of nonprofessionals that he strives for what appear to be "moderate" positions, that he sweeps along without a nod toward likely objections, that he offers sketches of arguments rather than the bona fide article.

The goal of exhibiting the worth of moral philosophy to nonphilosophers is laudable. The strategy adopted, though, is counterproductive. A reasonable response is: if this is the best that philosophical analysis can bring forth, it is a frail reed indeed. *Doctors' Dilemmas* would have done better to try decisive surgery more often and to prescribe fewer placebos.

Loren Lomasky is a visiting research associate at the Center for Study of Public Choice, Virginia Polytechnic Institute.

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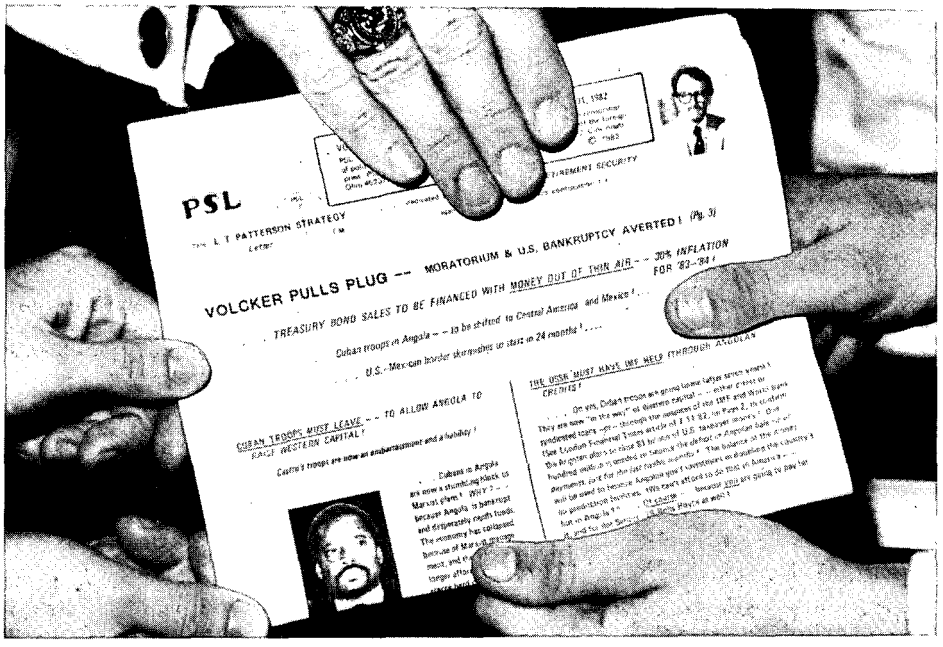
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HEALTH & WELFARE

(Continued from p. 57)

believe rather than what is true. It has been proposed, for example, that Congress pass a law requiring the addition of "consumer" and "labor" members to the "scientific advisory" board of the EPA.

One result of the EPA's hydrocarbon and other auto-emission controls is widespread flouting of the regulations. Mass magazines for car enthusiasts openly explain how to get around these laws, even telling drivers frankly how to break them by switching engines and other techniques. We ourselves have put lead additives into our gas tanks to overcome the problem of low performance by high-performance engines fueled by low-octane unleaded gasoline. There has been a resurgence of sales of late '60s and early '70s "muscle cars," which give much higher performance and much greater collision protection than the present joyless "econoboxes." Although sales of the econoboxes have been poor, auto manufacturers make them in large numbers to meet a federally mandated average mileage figure for the total production run of their vehicles. One hopeful sign is the return of auto makers to racing. Some of the Chrysler Corp. ads (such as those for the Dodge Charger) emphasize acceleration. In other ads, speeds above 55 miles per hour are described with relish. "You're doing 110, and you have one gear to go!" says one of Ford's Mustang commercials.

The EPA's budget is now over $1 billion, despite efforts by the Reagan administration and ex-administrator Anne Burford to put a damper on its expansion. There is, however, nothing for which "money is no object." Money is always limited, while the uses to which it can be put are virtually unlimited. The EPA might be useful if its funds were used strictly to conduct research into the causes of pollution. Politicians find it notoriously easy to spend other people's money on their pet theories, regardless of whether they are supported by the facts.

In our opinion, the 1974 automotive emission standards are more than adequate, having reduced hydrocarbon emissions by a factor of 10 from uncontrolled cars, along with very large reductions in nitrogen oxides and carbon monoxide. Indeed, a good case could be made that even the 1974 carbon-monoxide limit is too stringent. The currently required *further* factor-of-10 reduction (for emissions cut to 100 times less than from uncontrolled cars) is not a cost-effective way to protect health. Far greater health benefits could be purchased with these resources—for example, by spending this money on biomedical records or even providing "free" tune-ups for motorists; Society of Automotive Engineers Paper No. 710069 shows that a single fouled spark plug increases emissions six times.

There are many ways to reduce pollution and its health hazards. But not every way is cost-effective, and in the regulatory approach favored by the government and by many environmental groups, this fact has been ignored.

Durk Pearson and Sandy Shaw are consulting scientists and authors of Life Extension *(Warner Books).*

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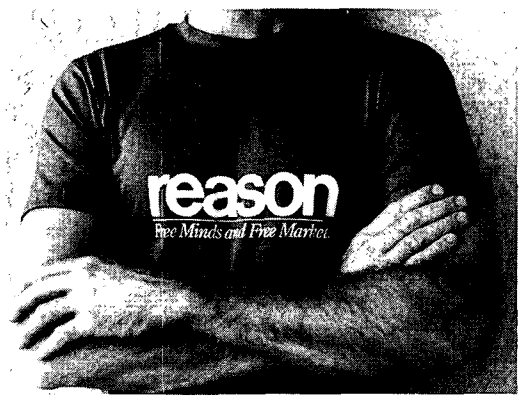

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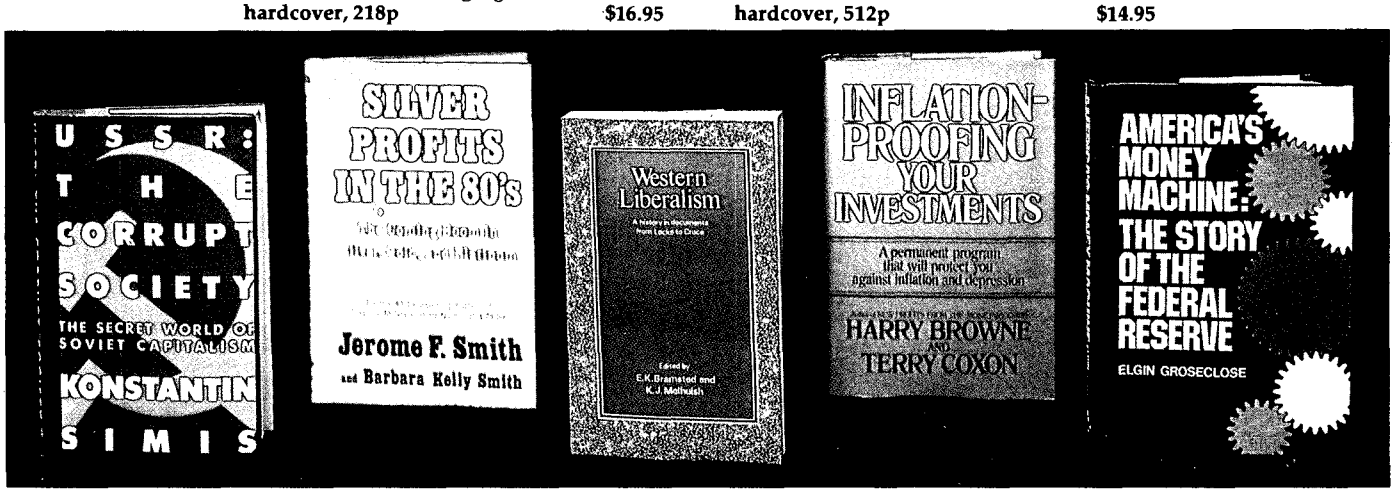
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